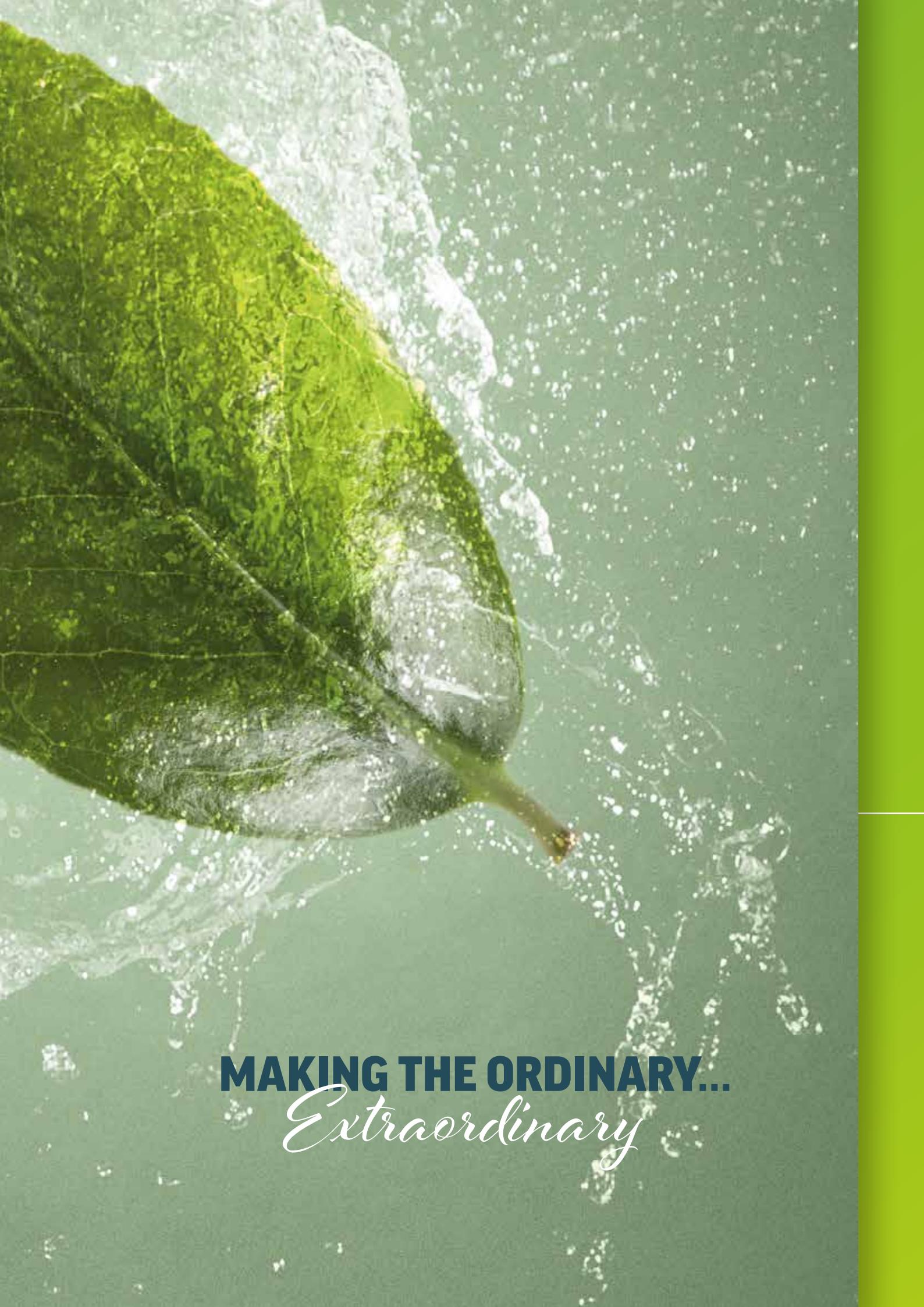




TREATT PLC

Annual Report & Financial Statements 2018



MAKING THE ORDINARY...
Extraordinary

Highlights



Revenue¹

£112.2m

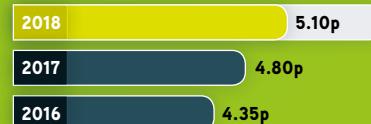
Revenue represents the total sales of all businesses in the Group, and reflects both underlying business growth as well as the impact of movements in raw material prices and foreign exchange rates.



Adjusted profit before tax^{1,2}

£12.6m

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



Dividends per share³

5.10p

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

Net operating margin^{2,4}

12.4%

Net operating margin shows the operating profit of the continuing business (before financing costs, other losses, exceptional items and taxation) divided by revenue.

Return on capital employed^{2,4}

18.5%

Return on capital employed is a measure of the profitability of the continuing business (before finance costs, other losses, exceptional items and taxation) relative to the assets invested in the business.

Net cash balance

£10.1m

The net cash balance represents the cash balances held by the Group, less all borrowings including overdrafts and loans.

¹ Excludes discontinued operations in 2017 and 2018. Earlier periods not restated.
² Adjusted figures exclude exceptional items, details of which are given in note 9 of the financial statements.
³ The dividends per share relate to the interim dividend declared and final dividend proposed in relation to the corresponding financial year.
⁴ The methods of calculating key performance indicators are shown on pages 14 and 15.

Operational highlights

On track to deliver 2022 strategic growth plan

New five-year plan approved in September 2017 as 2015 plan delivered three years early.

US expansion project on time and on budget

\$14m expansion project at Treatt USA due to complete late 2018. This will double capacity for tea and sugar reduction.

Earthoil disposal completed

Earthoil was sold as non-core to Group operations – enterprise value of £11.3m represents good return for shareholders.

Financing in place for expansion projects

10% share placing strengthened Group balance sheet, de-risked capital investment programme and widened shareholder base.

Environmental Impact

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.

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

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Highlights



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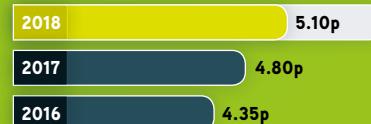
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At a glance

We manufacture and supply a diverse portfolio of flavour and fragrance ingredients to our customers across the globe

Who we are

FOUNDED IN THE UK IN 1886, WE CREATE FLAVOUR AND FRAGRANCE SOLUTIONS DESIGNED AROUND THE NEEDS OF OUR CUSTOMERS.

Drawing upon deep technical knowledge amassed over Treatt's 130 year history our experts work closely with customers across the global flavour, fragrance and consumer goods markets to help them create appalling and innovative products.



SALES BY GEOGRAPHY

- US
- UK
- Ireland
- Germany
- China
- Other



ROUTES TO MARKET

- Indirect via Flavour houses
- Beverage
- Personal care
- Trader or Distributor
- Chemicals
- Food
- Other



What we do

OUR FLAVOUR AND FRAGRANCE INGREDIENTS ARE PRESENT IN COUNTLESS FOOD, BEVERAGE AND FRAGRANCE PRODUCTS AROUND THE WORLD.

Bringing together the deep expertise from our long history and a mindset that embraces continuous improvement and innovation, we are able to meet customer specification with solutions that are off-the-shelf or bespoke, as appropriate.



INGREDIENT Applications

Our ingredients transform end products in a number of applications. Experts work with customers across a range of markets to identify how we can best support new product development or match customer needs with our range of exciting, high-quality solutions.



FRAGRANCE Ingredients

Our expansive range of fragrance ingredients and blends bring household products and fine fragrances to life. In today's competitive environment, brands rely on the power of perfume to entice consumers and drive sales. Our specialists support perfumers in the pursuit of the ideal ingredient that will make all the difference to the final blend.



FLAVOUR Ingredients

We manufacture and supply over 3,000 products to customers in over 90+ countries. Our flavour ingredients are the result of over a century of knowledge, experience and innovation, developed with an inspirational modern twist.

Why invest in TREATT?

With longstanding customer relationships built upon our expertise and global presence, our clear strategy aims to create sustainable value for stakeholders.

RECOGNISED EXPERTISE

Renowned for our technical expertise and knowledge of ingredients, their origins and market conditions, we are recognised as a leader in our field.

130+

years of knowledge and innovation

4

sites on four continents

DIVERSIFIED BUSINESS

Our broad portfolio enables us to meet any customer specification, with ready-made or tailored solutions. We collaborate closely with our diversified, blue-chip customer base, and our value-added solutions are sold around the world.

90+

countries in which our solutions are sold

47%

of our revenue is from our top 10 customers

CLEAR STRATEGY

Our 2022 growth plan includes a renewed strategic focus on our three core product areas of citrus, sugar reduction and tea, which together represent 69% of revenues; and capital investment to accelerate transition from ingredients business to added-value solutions manufacturer.

69%

of revenues represent our three core areas

STRONG PERFORMANCE

We have a track record of financial performance.

3yrs

early meeting the Group's 2020 strategic objectives

SUSTAINABLE PRACTICES

We are continually looking at ways to minimise our impact on the environment and to build upon the positive effect we have on those that work for us and the communities in which we operate. The commitment to continuous improvement will have a positive effect on our ability to meet strategic objectives and create long-term shareholder value.

EXPERIENCED MANAGEMENT

Our executive Directors have deep experience of the sector.

42yrs

combined sector experience

Our routes to market

We supply manufacturers of finished consumer goods products directly, and also indirectly via flavour and fragrance houses.



FLAVOUR HOUSES RESELL OUR PRODUCTS TO FMCG CLIENTS



CHAIRMAN'S STATEMENT

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BUSINESS MODEL

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CHIEF EXECUTIVE'S REVIEW

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Overview

Strategic Report

Corporate Governance
Financial Statements**100%**of used drums
recycled

Chairman's statement

A year of significant progress for Treatt, with funding in place to support future growth



Excellent results

This has been another year of significant progress for Treatt. The team met the targets that had been set, with revenues* up by 11% to a record £112.2m (2017: £101.3m), and profit before tax* reaching £12.6m (2017: £11.7m).

We also completed the disposal of Earthoil Plantations, a non-core business, for an enterprise value of £11.3m. This provided additional growth capital and allows us to focus on the pursuit of our 2022 strategic plan based around our core markets of citrus, tea and sugar reduction.

This strong performance derives from a resolute focus on executing our clear strategy and an uncompromising commitment to operational excellence, founded on supplying high quality, consistent products that meet customer needs, engineered for optimum value.

Favourable market dynamics

Notwithstanding economic and political uncertainties around the world, long-term trends including health and wellness, an increasing desire for innovative flavours and the burgeoning middle class in emerging markets, point to a growing market for our customers' products, and associated opportunities for Treatt's inventive and value-adding solutions.

Our specialist focus areas of citrus, tea and sugar reduction all sit at the centre of trends we are seeing in beverage markets across the 90 countries in which we operate. This gives us confidence that Treatt is well positioned to deliver long-term growth.

Looking back on the last financial year, our customers' end markets were buoyed by a particularly hot summer which drove beverage consumption in the northern hemisphere.

Successful placing

Last year we successfully raised net proceeds of £20.8m by way of an equity placing with new and existing shareholders in order to invest in expanding our operations in the US and UK.

On-going expansion

Our expansion plans in the US are proceeding at pace and we are on schedule to increase our footprint in Florida substantially. The resulting increased capacity cannot come too soon and I am pleased to report we remain on time and on budget. In addition, plans for our new UK headquarters are underway and we expect building to commence mid 2019.

Aside from our investment in physical infrastructure, we have also grown our sales teams and supporting resource in the US, to capitalise on growth opportunities in North America, the dominant market for new beverages.

Well placed for future growth

Treatt is well positioned for future growth. We are recognised as a trusted provider of flavours that are natural, authentic and meet the aspirations of our customers, which is reflected in the attractive contracts we continue to secure.

54%

of staff own shares
in the Company.

DIVIDEND PER SHARE**5.10p****REVENUE*****£112.2m****ADJUSTED PROFIT BEFORE TAX*****8.1% ↑**

We have a clear strategy and know where our niches lie. With liquidity from our share placing and the divestment of Earthoil, we are well placed to capitalise on the opportunities in the markets in which we participate. We have also made good progress in our newer territories in the Far East and India and have plans to take advantage of the sizeable potential in those markets. Our expansion in the UK and US will put in place the resources we need to better serve our more established territories as well as new markets around the world.

An enabling culture

Treatt is a dynamic and exciting business, with a culture built on focus, passion and collaboration. Our teams are integrated and there is a holistic work ethos, with colleagues working closely together to deliver to customers the right products, at the right time and at the right price.

As well as its work on succession planning, the Board places a high degree of importance on the culture, values and essence of Treatt. Our culture is extremely important; our people genuinely value one another and feel part of Treatt. That is also reflected in the collegiate yet challenging style of the Board, where we like to reach unanimous decisions. If something is not right, we keep at it until it is and we can all get to an agreed position.

The Board also engages regularly with the staff in the business. The entire Board visits the US at least once a year and are visible in our Bury St Edmunds head office. We get involved with fundraising initiatives such as Macmillan coffee mornings, and I have an open door policy for staff and individual Board members to approach me with any concerns or opportunities.

We have a very well balanced Board, with world-class experience and depth of insight across functional as well as geographical areas. At our Annual General Meeting in January we will bid farewell to Anita Haines who first joined Treatt in 1988. Having been on the Board for 16 years, firstly as HR Director and more recently as a Non-executive Director, Anita's contribution to Treatt has been immense. We will all miss her wise counsel and wish her well in retirement. A process is now underway to recruit a new Non-executive Director.

Working responsibly

Environmental, social and governance (ESG) matters are of particular importance to the Board and to Treatt generally. We seek to operate in a sustainable, low carbon way and of course we comply with regulatory requirements. Indeed this is an important design requirement for our new UK site. Treatt are adept at dealing with issues around extreme weather events impacting crops by having a robust risk mitigation strategy on sourcing.

We are also mindful of the communities in which we work, as well as those we serve. We focus on staff engagement, and a general awareness of sustainability. We aim to embed ESG matters more fully into our KPIs, taking account of the environmental impact of our decisions. For example, how sustainable is a particular product? Are we aware of any challenges and risks with sourcing? We are looking at how we can reflect, in our practical motivations and behaviours, the issues that are important.

We are also keen to work with local schools, particularly on STEM projects and generally in promoting science.

Growing dividend

The Directors propose to pay a final dividend of 3.50p per share (2017: 3.35p), increasing the total dividend for the year by 6.3% to 5.10p (2017: 4.80p). If approved by shareholders at the Annual General Meeting, the final dividend will be payable on 21 March 2019 to all shareholders on the register at the close of business on 8 February 2019. Shareholders who wish to participate in the dividend re-investment plan for this and future dividends should elect to do so by 28 February 2019.

Outlook

We have made a steady start to our new financial year. We know what our focus is, we know our markets, and we know we have to extend our capacity, and have clear plans to minimise any disruption during that process. There is plenty of demand and innovation in our established markets, as well as huge growth potential in China and India. There are uncertainties in relation to factors such as Brexit and US government policies, but in practice the desire of consumers to drink beverages is influenced far more by the weather than by politics.

We operate in a competitive market, but our strong relationships, values and culture are a very important part of what makes Treatt successful. On behalf of the Board, I wish to pay tribute to the dedicated people that make Treatt such a special Company, and we look forward to further success in the year ahead and beyond.

Tim Jones**Chairman**

26 November 2018

Our Culture

Our values are the fuel that drives the culture and success of our growing global business. They are the cornerstones of our organisation, created and owned by our teams across four continents.



INTEGRITY

PRIDE &
PASSION

TEAMWORK



CHALLENGE

Market overview

We operate in large and growing segments that are underpinned by long-term trends

GLOBALLY, CONSUMERS ARE BEING DRIVEN TO HEALTHIER FOOD AND DRINK CHOICES. IN ASIA, THE RISING AFFLUENCE IN THE MIDDLE CLASSES, PATTERNS OF URBANISATION AND INCREASINGLY YOUTHFUL POPULATIONS IS CREATING CHALLENGES AND OPPORTUNITIES FOR SIGNIFICANT GROWTH.

NORTH AMERICA

A mature and established market with an increasing focus on new product development and innovation, North America presents us with continued opportunity for growth.

There has been a decided shift towards wellness across almost every pillar of the food and drink market in the US, driven by consumers' desires to be more healthy, natural and sustainable. This movement has been more than a decade in the making and last year saw bottled water sales overtake all carbonated soft drinks sales for the first time. According to industry tracker, Euromonitor, carbonated soft drinks still generated more revenue in 2017, \$39.5bn in retail sales compared with \$21.3bn for water, but this remarkable shift signifies the scale of the appetite for 'better-for-you' products.

Increased consumer awareness around the subject of personal health and wellbeing has contributed to this snowballing trend. As momentum builds, it has become the hottest topic across food, beverage, personal care, fashion, interior and travel sectors as consumers look to improve all areas of their life. Being low sugar alone is no longer enough to tempt the health-conscious consumer. They also want the ingredients used to be natural, know where they are grown and understand how they are processed.

As such, brands across our customer base are reformulating, repackaging and rethinking their strategies to align to this evolving consumer mindset. We are well-positioned to maximise

opportunities created by this shift with our range of natural beverage ingredients, ideal for use in a health-focused product.

The appetite for iced tea, as well as ready-to-drink blended tea, continues to increase due to the health connotations inherent with this ingredient. Our innovative range of naturally caffeine and tannin-free tea solutions are of particular interest in this market. With everything from delicate green teas, light iced teas and full-bodied black teas to Oolong and Darjeeling blends, our portfolio gives formulators the ultimate flexibility. All our solutions are 100% natural and are wholly sourced from traditionally harvested teas.

UK and EUROPE

A diverse and evolving market, the UK and Europe present multiple opportunities as several trends continue to gain traction.

Reducing sugar levels across almost every beverage sector continues to become an increasing priority. According to data published late last year, 70% of European consumers say they are buying 'healthy' foods with reduced levels of sugar, salt, fat and calories.

Armed with a greater awareness of the role beverages play in general health and wellness, consumers' behaviours are incentivised by government initiatives, levies and taxes. Disruptive, market-changing brands are including 'sugar-free' as part of their core product DNA, as established brands are reformulating to catch up with consumer demand.

Our growing portfolio of 100% natural sugar reduction solutions appeal to formulators looking to achieve clean label status and reduce sugar levels, without compromising on palatability or delivering an extraordinary experience for the consumer.

ASIA

China, India and other emerging markets in Asia are increasingly a focus for Treatt.

Rising affluence in the middle classes, patterns of urbanisation and increasingly youthful populations are all contributing to new, fast-growing trends in the beverage industry across Asia. Increasingly driven by tastes influenced by Western culture, health and wellbeing are starting to become greater concerns for consumers. Younger generations are leading the charge for low sugar, healthy beverages that fit in with their broader lifestyle.

Brands are adapting to shifting consumer tastes as new product development pipelines shorten, reflecting the growing competition for consumer spend.

We continue to grow our footprint in this opportunity rich region as our core competences are closely aligned to the needs of the market places we operate in.



TEA

Tea

Tea is the second most widely consumed beverage globally, after water. In particular, ready-to-drink teas have increased in popularity among consumers, with the market growing by 40% between 2011 and 2016, and forecast to rise to 44 billion litres by 2020. Its growth has far exceeded that of carbonated soft drinks over the last five years, and the scrutiny over the sugar content of some ready-to-drink teas provides further opportunities for tea companies to distinguish themselves with healthy and flavourful alternatives. Natural energy drinks, cold brew teas and kombucha are gaining popularity driven by health and convenient functionality to suit hectic lifestyles. The US tea market is set to grow to \$10 billion in 2022 from \$8 billion in 2017, with Asia Pacific leading the rise of cold-brew teas.



CITRUS

Citrus

All citrus grows in two narrow sub-tropic belts between 20 degrees and 40 degrees north and south of the equator. Growing regions in both the northern and southern hemispheres mean that harvest periods can run concurrently, such that production can be almost year-round. Global weather patterns affecting Brazil and the US led to smaller orange crops for 2017/18. Conversely, favourable weather conditions in China, where large quantities of citrus are grown, mainly for domestic consumption, have led to forecasts of an increase in production to 7.3m tonnes. This reminds us that the essential oil market continues to compete with the fresh fruit market for raw material and of the near 48m tonnes of oranges produced globally, some 30m will be consumed fresh with the remainder heading to processors.



HEALTH & WELLNESS

Sugar reduction

The development of low and no sugar alternatives in both food and drink is being driven by increasing awareness of the detrimental effects of sugar on overall health. Public health and mass media campaigns are prevalent in many countries. Despite consumers searching for natural and healthier products, global sugar consumption is predicted to reach 178mmetric tonnes for 2018/2019, a huge increase from 154m metric tonnes in 2009/2010.

**800,000 kgs
of tea leaf
processed
last year**

**Global citrus
fruit production
exceeds 92m
tonnes**

**Worldwide
obesity has
nearly tripled
since 1975**

Business model

Our clear and simple business model delivers value to all of our stakeholders

HOW WE CREATE VALUE



CUSTOMER CENTRICITY

Our business is structured around effectively understanding and meeting the complex, evolving needs of our global food, beverage and fragrance customers. Every department is driven by a common goal of delivering excellence, throughout every step of our customers' journey.



FOCUSED STRATEGY

Our clear strategy provides focus for our global business, our employees and our customers. Strong and experienced leadership, supported by a diverse and passionate management team, provide clarity and purpose in all areas of the Group.



TECHNICAL EXCELLENCE

The sharpest minds across Research and Development, applications, quality assurance and quality control deliver unrivalled technical solutions for our customers, challenging what is possible in our industry. Treatt supplies ready-made and bespoke solutions, with particular expertise in citrus, tea and sugar reduction. 65%+ of our revenues are from value-added products, with the remainder generated through trading in raw materials.

HOW WE SHARE VALUE WITH OUR STAKEHOLDERS

EMPLOYEES

Empowering culture, opportunities for training and development, and safe working environment.

AVERAGE LENGTH OF SERVICE

9.75 years

NUMBER OF EMPLOYEES

360

INVESTORS

We have a strong track record of delivering consistent growth in shareholder returns and our focus is on building long-term value.

DIVIDEND GROWTH SINCE 2017

6.3%

CUSTOMERS

Tailored product range and service, built on our technical and regulatory expertise, quality standards and market intelligence.

POSITIVE EXPERIENCE AND TRENDS OF GREAT SERVICE FROM OUR QUALITATIVE FEEDBACK FROM OUR CUSTOMERS



SUSTAINABLE SOURCING

Working directly with growers, processors and suppliers across the world guarantees the finest quality raw materials and standards of production. We work hard to develop and maintain a transparent and stable supply chain, mitigating risk, maintaining integrity and providing maximum traceability.



RESPONSIBLE MANUFACTURING

From our facilities in the UK and US we manufacture and also process sourced material to create consistently high-quality products.



DIVERSE ROUTES TO GROWING MARKETS

We have a presence on four continents and our 3,000 products are enjoyed by consumers in over 90 countries. The broad appeal of our product offering allows us to capitalise on growth opportunities in several competitive markets. As well as our sales direct to end-users, we also sell to flavour and fragrance houses, traders and distributors.

SUPPLIERS

Sustainable, fair and rewarding outcomes for growers and processors.

SUPPLIER VISITS

52

COMMUNITIES

Donations of time, expertise and money to charities and causes that matter to our employees and their families.

GROUP DONATIONS

£25,000

NUMBER OF COMMUNITY PROJECTS

20

Ambition and strategy

We will reach our newly extended goals by building on the successes of our proven strategy

STRATEGIC PRIORITIES

**DRIVE INNOVATION,
WITH A FOCUS ON
CORE CATEGORIES**



**INCREASE FOCUS ON
TECHNICAL, VALUE-
ADDED SOLUTIONS**



**INVEST FOR
FUTURE GROWTH**



WHAT WE ARE DOING

Our heritage gives us firm foundations from which we can innovate with confidence, and we are committed to identifying and understanding market trends. We increased our research and development team during the year, but also see innovation as a responsibility of every department across the Group.

By dedicating the right resources to our leading product categories of citrus, tea and sugar reduction, we are backing our winners and putting everything we can behind their success – without taking our eyes off the rest of the business. An example of this in action is the recent formation of a cross-functional citrus team to drive our growth in this historically core part of our portfolio.

As we continue our transition from a trading house to a provider of value-added, technical solutions, we have added to our team of scientists to build close, mutually beneficial relationships with our customers across as many relevant touch points as possible.

We have an explicit approach to segmenting our customer base to allocate our resources appropriately and ensure we capitalise on the most promising opportunities.

We continue to invest in growth markets such as North America, China and India, where our sales teams have a focused promotion strategy to capitalise on the trends forecast by analysts for growth in soft drinks.

We have the funding in place to support our £45m capital investment programme for future growth.

We are also developing an integrated, global marketing function spanning creative, communications and operational capabilities, in order to drive our growth. Working with sales, customer service, category management, IT, HR, operations and corporate/community communications, we will champion Group-wide initiatives to improve customer intimacy, drive effective product marketing, grow our reputation in our communities and successfully deliver our brand.



READ ABOUT

The KPIs we use to measure our performance on page 14

The principal risks and uncertainties that might knock us off course on page 26

How remuneration is linked to delivery of our strategy on pages 65 to 68

OUR OBJECTIVE

We aim to continue to grow Treatt in a sustainable manner, and to create benefits for all of our stakeholders.

INVEST IN OUR CULTURE



ENGAGE WITH OUR COMMUNITIES



REDUCE OUR ENVIRONMENTAL IMPACT



The happiness of our people is integral to the success of the business and our culture of openness, innovation and collaboration attracts and retains the brightest candidates. We are proud of our record of employee engagement and retention, cultivated with a tailored training and development programme to help individuals reach their potential, backed with an environment of genuine support and care for our people.

By fostering a culture of innovation, we are seeing cross-functional teams working together to identify opportunities to grow and improve efficiency. Whether it is a matter of improving processing techniques, reducing waste and maximising training to develop new ways of working, consolidating existing resources and getting the most out of our existing site – our people are delivering sustainable growth, and there is a shared sense of forward momentum across the business.

A core element of our cultural strategy is our engagement with our local communities, as a result of which Treatt is becoming widely recognised both as a desirable employer and a business that is committed to community responsibility. Several members of staff are engaged with local schools and colleges in initiatives that deepen our relationships and enhance our longer-term talent pipeline for the business.

In the UK we have recently been awarded platinum accreditation, which is the highest award in the Best Employers Eastern Region Awards, as well as the Best Manufacturing Employer award.

We manage energy, fuel and waste disposal costs with the aim of lessening the Group's environmental impact while reducing cost and improving efficiencies.

Our Safety, Health and Environmental Champions, who undertake the role in addition to their day to day responsibilities, promote consideration of environmental impacts resulting from operations. Like Health & Safety, environmental considerations are seen as the responsibility of all staff, not just the Champions and we strive to do our best.

Waste management has been an area of particular focus over the last few years, with an increase in recycling of hazardous and non-hazardous waste, particularly in the UK. The site expansion project at Treatt USA and the site relocation in the UK provide exciting opportunities for us to incorporate more efficient energy saving technology into the build and fit outs.

Key performance indicators

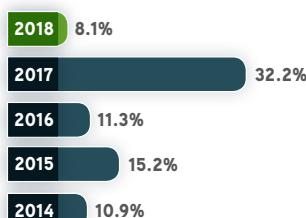
We assess Group performance using a set of financial and non-financial KPIs

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.

Growth in adjusted* profit before tax

Adjusted profit before tax is considered the most appropriate measure of the underlying performance of the Group.

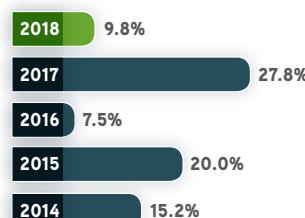
8.1%



Growth in adjusted* basic earnings per share

Adjusted earnings per share is considered the most appropriate measure of performance which is aligned with shareholder value.

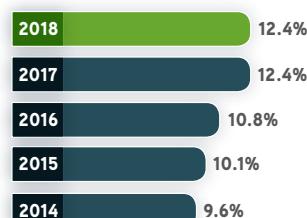
9.8%



Net operating margin*

Net operating margin is considered an important measure of the profitability of the Group.

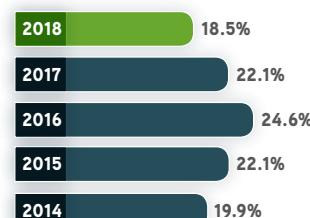
12.4%



Return on capital employed*

Return on capital employed is an important measure used to assess the profitability of the Group relative to the capital being utilised.

18.5%



Why we measure it

Adjusted profit before tax shows the underlying performance of the business for the year. We have a clear policy on exceptional items to ensure that only genuine one-off items (both positive and negative) which would otherwise distort the reported performance are excluded.

Why we measure it

Earnings per share is widely considered one of the most important metrics used by investors in order to place a value on a company and therefore in turn impact upon the share price. It lets shareholders know how much profit was made for each share they own.

Why we measure it

Net operating margin shows the operating profit as a percentage of revenue. This enables comparison between different businesses. As it takes into account all the day-to-day costs incurred in operating the business it demonstrates whether growth in the business is profitable.

Why we measure it

Return on capital employed enables stakeholders to see the profitability of the business as a function of how much capital has been invested in the business.

How we measure it

We calculate the growth in adjusted profit before tax by comparing this year's figure with that relating to last year. The 'adjusted' references the fact that we do not include exceptional items or discontinued operations* in this calculation.

How we measure it

We divide the adjusted profit after tax by the weighted average number of shares which ranked for a dividend in the year. Similarly this measure excludes exceptional items and discontinued operations*.

How we measure it

We divide operating profit (which excludes exceptional items, discontinued operations and other gains and losses) by revenue from continuing operations*.

How we measure it

We divide profit from continuing operations before interest, tax and exceptional items by the capital employed in the business which we calculate as shareholders' funds (total equity) plus net debt.

Average net debt to EBITDA*

Average net debt is used to ensure that the level of debt is appropriate relative to the profits generated by the business.

0.01

2018	0.01
2017	0.42
2016	0.35
2015	0.78
2014	0.99

Number of reportable accidents across the Group

The number of reportable accidents is used to monitor the safety of our working environment.

4

2018	4
2017	3
2016	2
2015	5
2014	3

Average number of sick days per employee

Average number of sick days enables us to monitor the welfare of our workforce and the effectiveness of our absence policies.

2.86

2018	2.86
2017	3.06
2016	4.29
2015	3.66
2014	3.39

Why we measure it

It is important to ensure that the level of borrowings in the business can be supported by the cash flow in the business. EBITDA is widely recognised as a good indicator of the cash generative performance in the year.

Why we measure it

The health and safety of our employees is of paramount importance to us. Recording accidents, which includes those that are reportable, assists with their prevention and encourages a focus on safety.

Why we measure it

The recording of sickness is essential for proactive absence management, which can help to reduce sickness absence and ensure that employees are healthy and working effectively.

How we measure it

We divide the average net debt in the year (being the average of the opening and closing net debt) by EBITDA. EBITDA is the profit before interest, tax, depreciation and amortisation and excludes exceptional items and discontinued operations.

How we measure it

We simply record the number of reportable accidents, which have occurred across the Group. Reportable accidents are work-related accidents, which legally have to be reported to a statutory body or have to be recorded in a specific format.

How we measure it

We divide the total number of sick days recorded across the Group by the total number of employees.

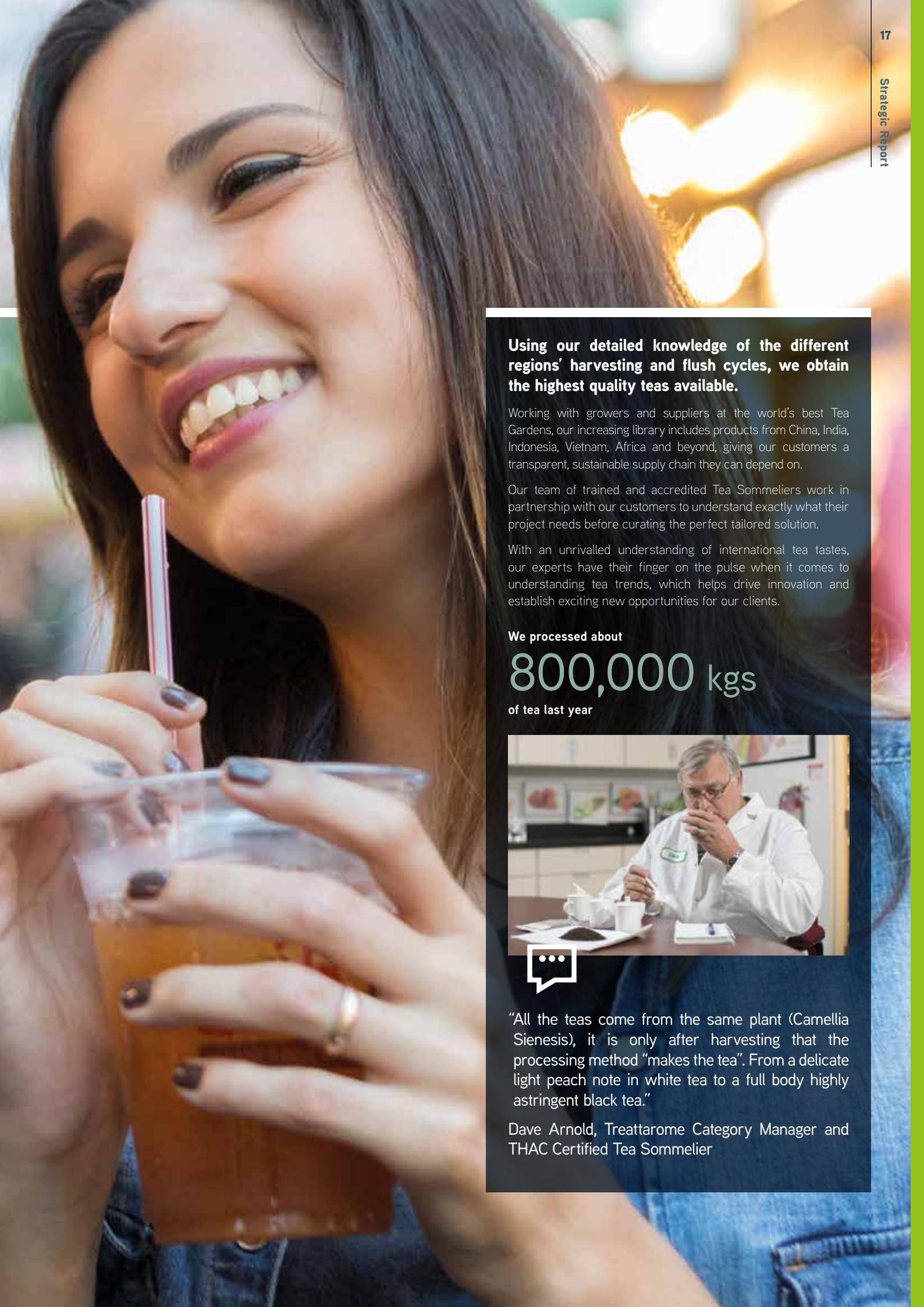
* All KPIs are calculated excluding exceptional items (see note 9). They also exclude discontinued operations in 2017 and 2018 – earlier years have not been restated for discontinued operations.

Treatt expertise

We source our teas from a number of premium global locations. Using our detailed knowledge of the different regions' harvesting cycles, we obtain the highest quality teas available



TEA



Using our detailed knowledge of the different regions' harvesting and flush cycles, we obtain the highest quality teas available.

Working with growers and suppliers at the world's best Tea Gardens, our increasing library includes products from China, India, Indonesia, Vietnam, Africa and beyond, giving our customers a transparent, sustainable supply chain they can depend on.

Our team of trained and accredited Tea Sommeliers work in partnership with our customers to understand exactly what their project needs before curating the perfect tailored solution.

With an unrivalled understanding of international tea tastes, our experts have their finger on the pulse when it comes to understanding tea trends, which helps drive innovation and establish exciting new opportunities for our clients.

We processed about

800,000 kgs

of tea last year



"All the teas come from the same plant (*Camellia Sienensis*), it is only after harvesting that the processing method "makes the tea". From a delicate light peach note in white tea to a full body highly astringent black tea."

Dave Arnold, Treattarome Category Manager and THAC Certified Tea Sommelier

Treatt expertise

With a strong and established background in citrus, our capabilities, knowledge and techniques are internationally recognised and valued by those who need the best quality products at every level



CITRUS



Our reputation as a trusted solutions provider in the citrus space has been earned over our 130 year history by delivering consistently high-quality ingredients in what has become an increasingly challenging marketplace.

We develop and maintain diverse, positive and long-term relationships with citrus growers and processors across over 10 countries to provide a stable and sustainable supply.

1,400 600

boxes to produce one drum
of orange oil

Varieties of orange grown
throughout the world



“I have been privileged to work alongside, and be educated by, some of the most highly respected characters in the wider global industry, allowing me a fuller understanding of our products from ‘grove to glass.’”

Paul Stott, Citrus Category Manager

Treatt expertise

We give our customers the ultimate choice when it comes to developing solutions that reduce sugar in a number of flavour compositions and beverage applications



HEALTH & WELLNESS

Improving flavour, while providing the required healthy attributes, is key to product success.

Created through a range of specialist technologies, including a short duration/low temperature distillation process to maximise flavour entrapment, we ensure the character of the distillate reflects the original fresh food.

Most of the world's population

live in countries where being obese kills more people than being underweight.

Source: World Health Organization

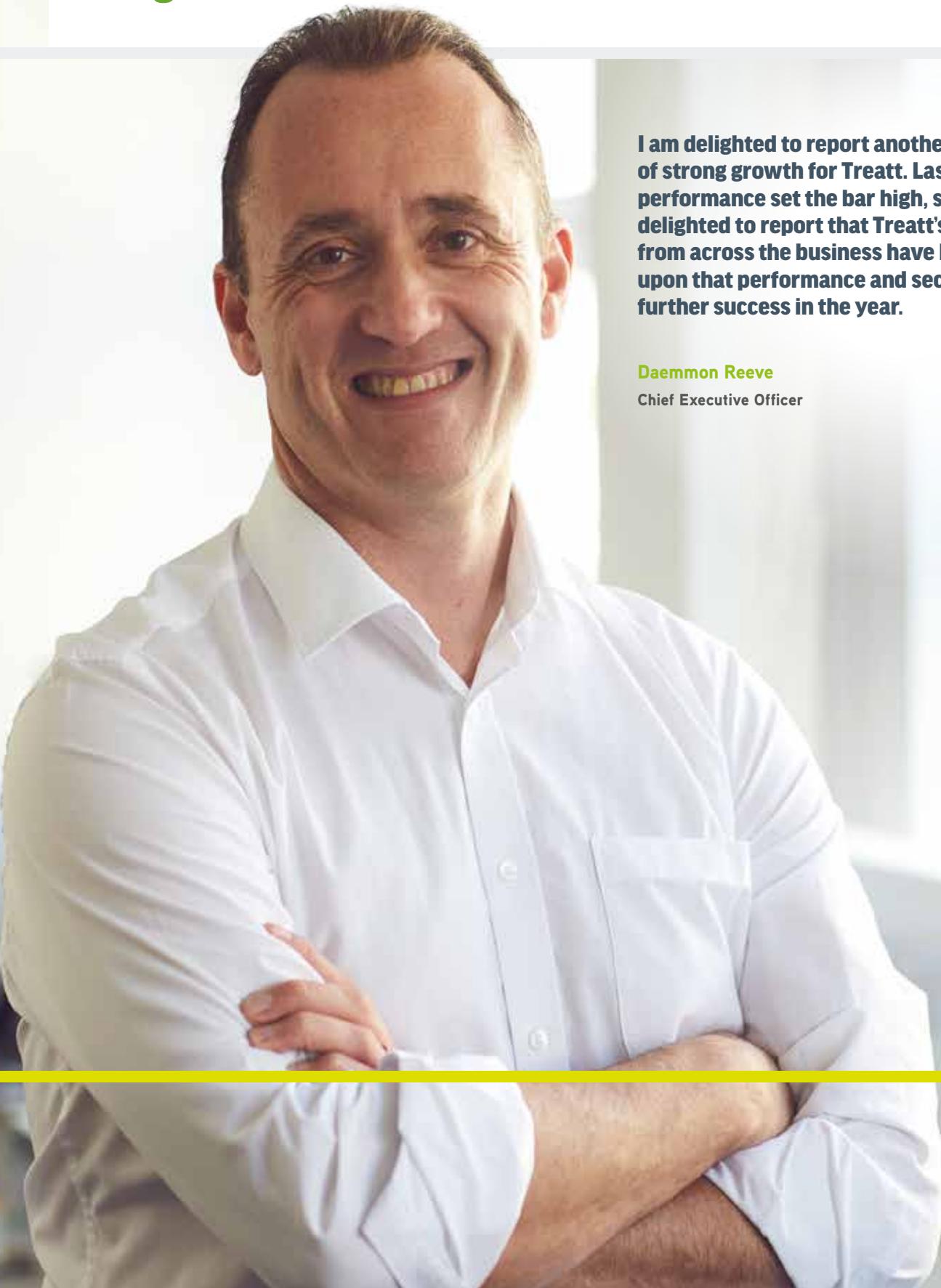


“Sugar reduction remains a hot topic, and great taste continues to be a key driver for consumers. Flavour is a complicated process, but our 100% natural, calorie free sugar reduction range can deliver a sugar flavour which allows our customers to bring an authentic sucrose or fructose profile to natural and artificial high intensity sweeteners.”

Charlotte Catignani, R&D Manager

Chief Executive's review

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



I am delighted to report another year of strong growth for Treatt. Last year's performance set the bar high, so I am delighted to report that Treatt's teams from across the business have built upon that performance and secured further success in the year.

Daemmon Reeve
Chief Executive Officer

EARNINGS PER SHARE***↑ up 9.8%****NET OPERATING MARGIN*****12.4%****ADJUSTED PROFIT BEFORE TAX*****↑ doubled in 5yrs****Another strong year**

I am delighted to report another year of strong growth for Treatt. Last year's performance set the bar high, so I am delighted to report that Treatt's teams from across the business have built upon that performance and secured further success in the year. Growth in key product categories of citrus, tea and sugar reduction have been noteworthy and are in line with our strategy and we also continue to achieve success in exciting newer areas of flavoured beverage growth such as tonic water and non-alcoholic spirits.

Having achieved the previous goals we set ourselves three years early, the Board approved an updated version of our five-year strategy in September 2017. One year on and the results have been encouraging with revenue growth from continuing operations of 11% to £112.2m (2017: £101.3m). As we continue our transition from our trading house origins we are developing a higher proportion of more technical, value-added solutions in partnership with customers. This aspect to our business presents exciting opportunities and growth potential as owners and brand leaders value both the quality and authenticity of Treatt's products.

Looking back over the last five years, we have delivered a total shareholder return of more than 330%. We are excited by such significant growth, and will aim to use our experience from the past five years to drive further growth and deliver greater value for shareholders in the long-term.

As the focus on our core areas of business continues to sharpen we sold a non-core operation, Earthoil, to Univar for an enterprise value of £11.3m and look forward to seeing the business develop under new ownership.

As part of this strategy, we have made progress on the development of our sites in the UK and US, with our successful share placing helping us to raise the necessary funds to drive this growth.

The reported increase in revenue from continuing operations was 10.8%, which in constant currency terms reflects an increase of 14.1%. Reported adjusted* profit before tax increased by 8.1% to £12.6m, compared with £11.7m last year, resulting in adjusted* basic earnings per share from continuing operations of 18.02p up 9.8% relative to last year (2017: 16.41p).

Continued growth across core categories

All of our product areas performed well, with particular sales growth coming from our core categories of citrus, tea and sugar reduction which saw growth of 9%, 8% and 63% respectively.

Citrus

Citrus has been the core of our portfolio for a large part of Treatt's history but there is no room for complacency in this important category. A key part of our strategy is to provide additional cross discipline focus in this area to drive greater growth and unearth future potential for the teams to drive towards. Citrus as a flavour family remains in high demand for the beverage sector across the globe and continues to be designed in new product launches across a wide spectrum of the beverage market. Treatt is benefitting from our technical and commercial teams working very closely together in this space, alignment behind category management has further sharpened our focus and we are encouraged by our opportunities in this segment.

Summary**Encouraging start to five-year 2022 growth plan:**

- Growth across all product categories.
- Funding in place for capital investment programme to support growth.
- US expansion to double capacity in key product categories nearing completion.

Tea

Sales of our specialist ingredient solutions have continued to increase, buoyed by the sustained growth in demand for ice tea, notably in North America, where the category has continued to gain share from carbonated soft drinks and where our investment in expanded capacity will help drive further growth. The authentic, fresh-brewed flavour of our proprietary natural distillates has been a key driver of our success in this segment. Whether we are supplying a large volume black tea for an established product or a matcha tea for an innovative new line, we work closely with our clients, utilising our in-house tea sommeliers to ensure successful 'concept commercialisation' across a wide array of solutions.



No plastic cups

used at water stations
& staff issued with
reusable drinking
bottles

Chief Executive's review continued

CAPITAL INVESTMENT

£6.6m

INCREASE IN REVENUE*

10.8%

RETURN ON CAPITAL*

18.5%

Sugar reduction

Growing consumer desire for natural and authentic and a societal trend towards health and wellness are playing into the sweet spot of Treatt's strategy and portfolio. Sugar reduction remains the hottest topic in the beverage industry. Whether sugar taxes have been implemented in a market or simply mooted, the debates themselves have served to raise consumer awareness of the calorific content of some beverages. The primary consideration – and holy grail – for beverage brands is to reduce sugar while maintaining the authentic, desirable, flavour profiles of the product.

Treatt plays a niche and technical role in the scientifically complex sphere of sugar reduction. We are not involved with the sweetness nor the bulk or mouthfeel of sugar, rather we play principally in the flavour and aroma of sugar, which is difficult to reproduce without calorific impediment and we are forging a growing reputation in this important space.

Other categories

Demand for our solutions has been underpinned by the ongoing dynamism in the beverage market, with consumers across developed markets seeking ever more innovative flavours that are also natural and authentic. The choice available to consumers is markedly greater than five years ago, whether in the supermarket aisle or in on-trade outlets, with even traditional venues offering the likes of gin menus, pairing inventive varieties with a range of complementary mixers. Challenger brands coming to market present great opportunities for Treatt, and there is a fit with our agility as an ingredients specialist. We have some highly technical and developed processes within our technologies and know-how that enable beverage formulators to bring the natural authenticity to beverages that consumers are

increasingly demanding. Other areas of non-beverage activity have also seen solid growth, whether that be from our partner Endeavour Chemicals, the high-impact synthetic aroma chemical manufacturer, through to FMCG activity with non-beverage household goods manufacturers obtaining quality and value from our citrus processing capabilities into markets such as fragrance for detergent.

Delivering on our reinvigorated strategy

Having reached our 2020 profit objective three years early, last year we set ourselves new goals and refined our successful strategy. Our revised strategy gives renewed focus to our areas of particular strength, recognising that our capabilities in the beverage market have been the core drivers of our performance. Within that sector, we are giving additional resource to our winning citrus, tea and sugar reduction propositions. This does not mean that we are backing away from other categories, rather we are prioritising those that have contributed most to the recent success of Treatt, as well as offering the most potential for growth in the context of the evolving consumer habits with an increased general demand for healthier and natural products.

As we have increasingly focused on technical, value-added solutions, our scientists are engaging with peer scientists at beverage companies more than ever. Our historical trading activity remains an important part of our business, but we engage in this only in opportunistic areas where there is a benefit to doing so. For example, we are known as a trader of orange oil, and our activity in this area means we are able to enjoy economies from higher volume sourcing that benefit our business as a whole.

Another key pillar of our strategy is that we are looking to grow our global footprint. Aside from generating pleasing growth in our more established North American and European markets, we are encouraged by the contract wins achieved since we invested in a local presence in each of China and India. We see significant potential in these vast and growing markets, and have explicit 'game plans' for how best to direct our resources to capitalise on this.

Our physical infrastructure is another important element of our strategy and capacity expansion of our US and UK facilities is a core facilitator of our growth plans.

The US expansion at our facility in Lakeland, Florida is progressing to plan with construction nearing completion. This much needed 50,000sq ft manufacturing and 15,000sq ft laboratory and office expansion will give us significant additional capacity to help meet existing demand, as well as the platform to support our growth in the future. The construction is expected to be completed by the end of 2018 with the plant fully operational in early 2019.

Much detailed planning work has gone on in value engineering our options for our UK site relocation to deliver the optimum solution for all our stakeholders. Our latest estimate for construction to commence is mid 2019 with a move-in date anticipated for summer 2020. The benefits of moving from six discrete buildings on our Bury St Edmunds estate where we have been present since 1971, to a single purpose-built science-led facility are significant and wide ranging and will push our efficiencies, culture and collaboration opportunities to ever greater heights. The new site will be modular in design, thereby

allowing for future expansion in the most cost effective way, and the multiple operational improvements should help to deliver margin improvements over the medium-term.

A key thread that runs through our strategy is our people, and a culture that we can be genuinely proud of. One of the reasons we have performed so well is the amount of discretionary effort made by our people, who are very aligned and engaged with what we are doing, particularly since the majority of our staff are shareholders. A happy and engaged workforce has been the fuel for the Group in the last few years and we see that element as key to our future success too. Our people are trusted and empowered, and we do what we can to support them, both in and outside of work. We harvest ideas and allow our people to shape our culture, rather than imposing one on them. The benefits of better communication and working closely together are reflected in our strong performance, and have truly been the underpinning of it. Our efforts to succeed as a business have been recognised both locally and nationally. Our corporate culture was at the forefront when we won the Business Weekly 'Business of the Year' award which is aimed at showcasing the very best of East of England businesses.

Engagement between the Board and employees is a regular feature of life at Treatt. The Board are around the Company often, which is something the Board and staff appreciate and is a core part of our transparent culture.

The work that we do with our local communities is very important to us and we are increasingly recognised as a business which takes genuine responsibility as a large employer, particularly in Bury St Edmunds, where our headquarters are based.

This year we have worked closely with West Suffolk Hospital's MyWISH charity to raise money for their new cardiac unit. We also recently took part in the MyWiSH Soapbox Challenge, giving us a great team-building event and fun day. Treatt is a regular supporter of UpBeat Heart Support, St Nicholas Hospice Care, Breast Cancer Awareness and MIND. At our Lakeland site, staff are given time off to help pack food parcels for kidsPACK which provides meals to children when not at school. The team there also continues to fundraise for the local Women's Resource Centre, helping women and their families.

Treatt continues to support local events such as Bury in Bloom as well as working closely with schools and colleges, encouraging local schoolchildren to spend time with us through visits and work experience placements. We are always keen to share our expertise with students at careers fairs, science fairs and through our STEM Ambassadors.

As a Company we continue to endorse sport in the workplace and offer a programme of sporting activities. As a result, staff have been involved in bike rides, running, sponsored walks and golf days.

All our staff have been trained by Suffolk Needs Met, backed up by equipping all Team Leaders and Managers to be able to support staff with mental health and wellbeing. We encourage proactive health management, running health education sessions and offering free NHS medicals for those over 45 years old.

Promising outlook

The trends we are seeing in the external environment play to our strengths, with our emphasis on natural ingredients. The Group has had a steady start to the new financial year

with a number of attractive opportunities in our pipeline of projects with both existing and new customers. We are well placed to capitalise on these opportunities with our capacity expansion in the US expected to complete in the coming weeks. Whilst still early in the financial year, the Group continues to perform in line with the Board's expectations for the full year.

We are hungrily growing Treatt and building the business for the long-term. We have enjoyed much success in the past five years but it is the future we continue to focus our attention on. There is no room for complacency in the dynamic markets we serve and the great endeavours by the teams across Treatt will ensure we are relentlessly striving to grow this business further, working with agility and intelligence as well as passion and dedication.

I wish to extend my heartfelt thanks to my talented and driven colleagues, who have once again delivered encouraging progress against our strategic objectives; their efforts impress me every day.

Daemon Reeve

Chief Executive Officer

26 November 2018

Reuse & Reduce

initiative encourages staff to reduce envelopes, printing papers & double sided printing

Principal risks and uncertainties

The Board has overall responsibility for the management of risk at Treatt

THE BOARD HAS OVERALL RESPONSIBILITY FOR THE MANAGEMENT OF RISK AT TREATT. THIS INCLUDES THE ESTABLISHMENT OF AN APPROPRIATE RISK CULTURE, SETTING THE GROUP'S RISK APPETITE AND OVERSEEING ITS RISK MANAGEMENT AND INTERNAL CONTROL SYSTEMS. DAY TO DAY RISK MANAGEMENT IS DELEGATED TO THE EXECUTIVE DIRECTORS WHO WORK CLOSELY WITH SENIOR MANAGEMENT TEAMS IN REVIEWING AND MONITORING RISK AND MITIGATION STRATEGIES ACROSS THE BUSINESS

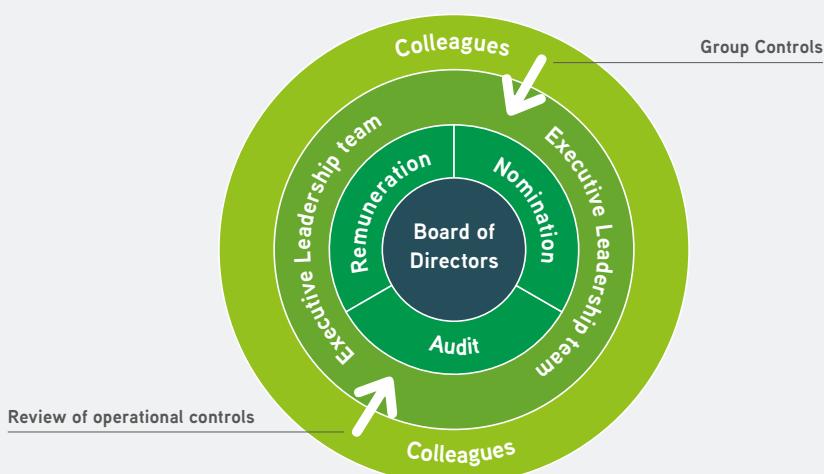
Risk appetite is an expression of the type and amount of risk we are willing to accept to achieve our strategic objectives. The Board sets the appetite for risk across the business by reviewing and challenging the risk register, ensuring that risks are considered and mitigated

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.

We operate in a competitive market and recognise that strategic, commercial and investment risks will be required to seize opportunities and deliver results. As a consequence, we are prepared to accept certain risks in pursuit of our strategic objectives, but acceptance of these risks is subject to ensuring that potential benefits and risks are fully understood, and appropriate mitigation strategies are in place to minimise the effects of these risks, should they materialise. An understanding of risk encourages clear decision-making.

Risk Management Framework



All employees have a role in the management of risk within the Group

Our risk management framework incorporates a top-down approach, setting the risk appetite and identifying our principal risks, and a bottom-up approach to identify our operational risks

Risk Management Framework

Our risk management framework provides a consistent and structured process for identifying, assessing, responding to and monitoring risk. The senior management teams are responsible for compiling Group risk registers to identify risks facing the business, their effects 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 current site expansion at Treatt USA and the pending 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 performance of the business and its strategic direction. 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.

Board Review of Risk

During the year the Board selected a number of risks from the Board risk register to review in detail, including risks related to Health and Safety in the UK and US and R&D. The risk owners presented their mitigation strategies to the Board, providing the Board with an opportunity to challenge and ensure that appropriate mitigation is in place and is effective. Having undertaken an internally led review last year of risks associated with product quality, procurement and IT security, the Board is content 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.

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 on 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 it has taken all reasonable steps necessary to satisfy itself that the current risk management procedures for identifying risks and considering risk mitigation are appropriate.

During the year 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 as set out on page 60 of the Audit Committee Report.

External Risks

Foreign exchange continues to be a risk to the business which requires managing. 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 pages 32 to 38.

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;
- a dedicated team reviews adherence to internal procedures and operational controls, requiring action where non-conformances are identified;
- 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.



With
360
employees working
across the globe

Principal risks and uncertainties continued

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.

We will continue to monitor the situation regarding Brexit 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. 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 manufacturing locations in the UK and US gives us some flexibility to respond to this.
- Potential changes to immigration rules within the EU have the potential to cause us some short-term disruption. The ability to attract the best possible talent from around the world is important for Treatt's future growth.

Principal Risks

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.

Despite the continued investment in IT security we have increased the perceived level of risk in this area due to the external environment. Organisations, in all sectors, are seeing an increase in the volume and sophistication of cyber attacks, which in certain cases have caused major disruption to factory operations and supply chains.

The risk climate in respect of the commoditisation of existing Treatt products increased last year as customers continued to consider ways of reducing the cost of existing products. The risk is unchanged this year as Treatt continues to see some stiffer competition for existing business, as well as the need to be highly competitive on price in order to win new business, as our competitors seek to reduce the cost of their products. 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.

As our business encompasses so many products derived from natural sources, weather continuously has an effect on the availability and pricing of our raw materials. Some recent examples include a significant drought in Sao Paulo, Brazil which decreased the orange crop by over 30%; hurricane Irma, which hit Florida in mid-September 2017, resulting in the largest and longest-lasting price increase ever seen for grapefruit oils; and unusual weather patterns in Florida during the first half of 2018 causing a delay in the regular processing of spring crops such as cucumbers, watermelons, peppers and cantaloupe. The key to working with natural crops, where movements in the market can be unexpected, is ensuring the availability of alternative supply sources; establishing and maintaining relationships with alternative suppliers is a core responsibility of the procurement function.

We have seen a very challenging year in terms of both supply and pricing of natural and nature identical chemicals, as well as non-citrus essential oils. Very strong efforts by the Chinese government to control pollution has led to thousands of manufacturing plants being closed in China, many with little or no notice. Some of these plants will reopen within a year but many smaller ones will not survive. These closures have put immense pressure on the supply chain worldwide for these raw materials. That, coupled with two very damaging fires at major chemical manufacturing facilities in Germany and India, has caused price increases ranging from 10% to 400% for hundreds of chemicals, their derivatives and essential oils. Whilst we do expect to see these markets slowly move down in price as both plants come back online, the lack of supply is likely to keep many prices higher than historical averages. Whilst this has increased the risk in respect of these materials, which we will continue to manage, the overall risk to the business of the movement in raw material prices has not increased.

Treatt is particularly experienced in managing volatility in raw material price and availability and strategic decisions are regularly taken to mitigate price movements, which, whilst not eliminating risk, have a history of being effective.

Treatt has a well-established Apprenticeship Programme, which has been successful in developing home-grown talent and we will continue to develop the programme to attract the best candidates. Work on employee engagement has continued this year; we are not complacent and appreciate that engagement requires ongoing focus and we must be ahead of workplace trends and utilise various attraction tools. We have had very encouraging engagement survey results and in October 2018 achieved Platinum Accreditation at the Best Employer Eastern Region Awards. In growing talent and providing training opportunities there is always a risk that others will poach our employees and this year we have seen a small number of employees in key positions leaving the business, attracted by significant pay increases or opportunities for career progression. However, we were able to fill some of these roles through internal succession and we continue to offer internal progression opportunities where we are able.

Strategic Objective and Priorities Key

 **Core Categories**
 **Value Added Solutions**

 **Invest for Growth**
 **Culture**

 **Communities**
 **Environmental Impact**

Risk Climate Key (post mitigation)

No change  **Increase**  **New Risk** 

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 likely

to be from 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 site expansion project includes an upgrade to the existing buildings to improve their ability to withstand storm damage, including a complete replacement of the roof to the older of the two existing buildings.

Risk	Effect	Strategic Impact	Mitigation	Risk Climate	Key developments during the year
People					
Poaching of key staff	As our highly skilled and experienced staff become increasingly customer facing the risk of them being headhunted increases.	   	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.		Continued focus on engagement. Introduction of employee of the quarter awards in the UK following success in the US. Employees are nominated by colleagues for their contribution to our values. Continuation of staff training, enabling upskilling and providing career development opportunities.
Financial					
Overspend on UK site relocation and US site expansion	Increased costs, reduction in working capital headroom and a need to cut costs in other areas.		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.		Close monitoring of the US site expansion through regular site meetings with Project Managers and contractors, ensuring that the project remains on time and on budget. Internal control processes in place to fully evaluate additions to the schedule of works. A thorough due diligence process implemented on the plans for the UK site to ensure that the project is specified within budget.
Movements in commodity raw material price	Impact on contribution, possible stock shortages.	 	Regular stock meetings and inventory control with experienced members of staff. Monitoring and communication of market conditions, long-term commodity contracts.		Maintaining close relationships with suppliers. Continuing to identify new suppliers for key raw materials or those where shortages exist. Assisting our customers with managing price volatility or raw material shortages as part of the Treatt service. Expansion of the internal Citrus Team to provide greater management across the Group of Treatt's largest raw material.

Principal risks and uncertainties continued

Risk	Effect	Strategic Impact	Mitigation	Risk Climate	Key developments
Operational					
Pressure on infrastructure for strategic business	Loss of revenue, damage to reputation, loss of key strategic customer.	CC Val I	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.	→	US expansion will deliver increased capacity in 2019. New molecular still in the UK, which is transferable to the new site, now fully operational. Project Manager working on Group inventory to ensure that we have the right inventory to be able to meet customer demands, whilst not carrying unnecessary inventory.
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.	CC Val I E	Regularly inspect and maintain building components. Implement hurricane action plan when necessary. Sufficient spread of inventory between production facilities in UK and US.	→	Improvements to the structure of existing buildings at Treatt USA, in addition to current expansion. Comprehensive maintenance programmes across the UK and US sites.
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.	CC Val	Strong commitment Group-wide to disciplined compliance with internal quality programs. Commitment to permit third-party auditing.	→	Eight third-party certification and regulatory audits were facilitated and any non-conformances rectified. Eight customer audits 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.	I	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.	↗	Review of the Group-wide IT policy. Continued investment in infrastructure and particularly software security. Continued focus on raising of staff awareness of cyber security through test scenarios. Insurance cover taken to protect the business against the highest cyber risks and consequent business interruption. Ad hoc hacking attempts by third-party security consultants to identify potential threats.
Commercial					
Product failure	Potential product recall causing financial and reputational loss.	CC Val I	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. Thorough investigation of errors leading to appropriate action such as retraining or amendment of procedures. Review and renewal of recall insurance. Annual desk top testing of product recall procedure.



Risk	Effect	Strategic Impact	Mitigation	Risk Climate	Key developments
Commercial continued					
Commoditisation of established Treatt products	Effect on revenues and margin attrition.	(CC) (Val)	Innovation and development of new products. Broaden into other associated sectors.	→	Continued focus on citrus as area of strength. Identification and implementation of process improvements and new equipment to increase efficiency. Increasing value-added proposition.
Shortening value chain and new entrants in SCC based aqueous distillates	Customers demonstrating increased competence to fold, fractionate, break bulk. Increased competition.	(CC) (Val)	Continued value-added in-house innovation. Rationalisation of product portfolio to eradicate low margin commoditised products. Strengthen product knowledge/sourcing.	→	Further rationalisation of SKUs to remove low margin products and improve efficiency. 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 TreattArome® 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.	(CC) (Val)	Closer collaboration with existing suppliers. Identifying alternative suppliers where possible. Investigate alternate sources of supply of, if not identical, similar materials. Creation of alternate blends using substitutes. Long-term supply agreements put in place.	→	Building relationships with alternate suppliers. Strengthened relationships with incumbent suppliers. Developing new blends.
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.	(Val) (CC)	Enhancing relationships with competitors / brokers and other supply channels, combined with forward purchasing contracts for medium to longer-term supply.	→	Visits to existing and new suppliers for key product groups. Attendance at industry conferences and seminars providing opportunities to meet with potential new suppliers. Strategic buying of core products.
Legal and 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.	(CC) (Val) (Co) (E)	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. 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, which provides further mitigation in certain areas of risk.

During the year, a full-scale review of the Group's business continuity plans took place with the assistance of an external consultant, the cost of which was covered by the Group's insurers. A full business impact analysis was conducted improving our understanding of the business' resilience and how to minimise the impact and disruption of an incident or crisis to both operations and reputation. A new robust and fit for purpose business continuity plan has been designed to incorporate emergency response, crisis management and business recovery and strategic IT disaster recovery aligned with best principles set out in ISO22301, the international standard for Business Continuity.

Financial review

Revenue* grew by 10.8% resulting in adjusted* earnings per share up by 9.8%



Richard Hope
Chief Financial Officer

REVENUE*

£112.2m

10.8% increase

ADJUSTED* PROFIT BEFORE TAX

£12.6m

8.1% increase

KEY PERFORMANCE INDICATORS

NET OPERATING MARGIN*

12.4%

(2017: 12.4%)

RETURN ON CAPITAL EMPLOYED*

18.5%

(2017: 22.1%)

CASH/(NET DEBT)

£10.1m

(2017: Debt – £10.2m)

Income Statement*

Revenue and profit

Revenue for the year from continuing operations grew by 10.8% to £112.2m (2017: £101.3m) with growth continuing across all of the Group's main product categories. Sugar reduction saw strong double digit growth in particular, driven by new FMCG wins. In constant currency terms, revenue from continuing operations grew by 14.1%, with 3.3% of the revenue growth being reflective of a weaker US Dollar in 2018 as compared to 2017.

Strong revenue growth in mainland Europe (+24%) to £27.7m and the UK (+43%) to £11.0m was partly offset by a 6% decline in China to £5.4m. The Group's largest market, being the US, was marginally up at £41.0m (2017: £40.6m).

Gross profit grew by 9.9% with gross profit margins decreasing marginally from 25.0% to 24.7%. This fall in margins resulted from the combined effect of movements in foreign exchange rates and new business wins with large FMCG businesses at initially lower margins. In respect of the latter, the subsequent process improvements and strengthened procurement typically leads to stronger margins over time. We have a strong track record of growing margins with new clients through our collaborative, science-led approach.

Administrative expenses grew by 8.6% in the year to £13.8m (2017: £12.7m), although on a constant currency basis the increase was higher at 9.4%. Approximately half of the £0.9m increase in administrative expenses was driven by increases in employment costs (see note 6), with headcount numbers increased across the Group – up by 10% globally. This investment in people has been driven by our growth over the last five years as well as our move up the value chain and is focussed primarily around science and sales.

Following five years of continued improvement, net operating margin* remained unchanged in the year at 12.4% (2017: 12.4%). This compares to 9.6% five years ago. Consequently, operating profit* increased by 11.1% to £13.9m (2017: £12.5m).

The Group's capital employed increased substantially as a result of the share placing referred to below. Consequently, based upon the capital employed at 30 September 2018, return on capital employed* decreased to 18.5% (2017: 22.1%).

During the year the planning work commenced for the relocation of the Group's UK headquarters to a new 10-acre site in Bury St. Edmunds. Consequently the estimated useful lives of property, plant and equipment were reassessed resulting in an accelerated depreciation charge of £0.2m. In addition legal and professional fees, including lawyers, planning consultants, architects and manufacturing plant and machinery specialists have been engaged at a total cost to date of £0.9m. These expenses, totalling £1.1m are included in exceptional items (see note 9). There were no exceptional costs in the prior year. Profit before tax and exceptional items from continuing operations rose by 8.1% to £12.6m (2017: £11.7m). On an adjusted basis, which excludes exceptional costs, earnings before interest, tax, depreciation and amortisation for the year increased by 5.5% to £14.9m (2017: £14.1m).

1,606

tonnes of material sent to anaerobic digester

* All measures are based on continuing operations and adjusted to exclude exceptional items, details of which are given in note 9.

Financial review continued

The proposed final dividend of 3.50p per share (2017: 3.35p) increases the total dividend per share for the year by 6.3% to 5.10p

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. Although weaker on average over the year, the US Dollar ended the year 3% stronger against GBP at £1=\$1.30 (2017: £1 = \$1.34). 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 loss on foreign exchange contracts and re-translation losses in aggregate of £1.1m (2017: £0.3m gain), of which £0.7m related to ineffective hedges (see note 7).

There was a substantial currency impact, a gain of £0.9m (2017: £1.1m loss), 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 fell by 33% to £0.57m (2017: £0.85m) as a result of the Group becoming cash positive in the year, due to the combined effect of the share placing in December 2017 and the disposal of Earthoil Plantations in May 2018. Although in a cash positive position, there are a number of fixed costs for maintaining facilities for future use including facility fees and non-utilisation fees which are funded from operating cash flows. During the year the Group settled its interest swap which had previously been used as part of the Group's risk management processes, but was no longer required. Following the decrease

in net finance costs, interest cover for the year before exceptional items and discontinued operations increased to 24.6 times (2017: 14.7 times).

Group Tax Charge

The current tax charge of £2.9m (2017: £3.2m) represents an effective rate (based on profit before tax and exceptional items) of 24.3% (2017: 27.5%). After providing for deferred tax, the overall tax charge reduced by £0.7m to £2.3m (2017: £3.1m); an overall effective tax rate (after exceptional items) of 19.8% (2017: 26.8%). As we announced in April 2018, the significant change in the year was the sizeable reduction in US corporation tax rates with effect from 1 January 2018 from 35% to 21%. This had the effect of both reducing the current year tax charge on US profits as well as creating a one-off deferred tax gain on US deferred tax liabilities of £0.3m. 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.

Disposal of Earthoil Plantations

As part of the Group's updated strategy for the five years through to 2022, the Board determined that Earthoil was non-core to Group operations. In May 2018, therefore, the Group sold Earthoil Plantations Limited for cash consideration of £10.1m of which £1m is held in escrow for a period of 12 months. A further balance of £1.2m was also received in October 2018 from the purchasers in respect of the settlement of what were previously inter company balances. The total enterprise value received for Earthoil will therefore total £11.3m.

The gain on disposal of Earthoil Plantations, which has been included within discontinued operations, totalled £2.4m. Further information on discontinued operations is shown in note 11. As part of the sale agreement, Earthoil's subsidiaries remained part of the Treatt Group and entered into a three-year supply agreement with the purchasers and continue to be considered as discontinued operations and held for sale.

Earnings per share

Adjusted basic earnings per share (excluding exceptional items and discontinued operations, as set out in note 11) for the year increased by 9.8% to 18.02p (2017: 16.41p). 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 3.50p per share (2017: 3.35p) increases the total dividend per share for the year by 6.3% to 5.10p, representing dividend cover of 3.4 times continuing pre-exceptional earnings for the year and a rolling three-year cover after exceptional items of 3.1 times. The Board's policy has been to maintain dividend cover on a consistent basis at between 2.0 and 2.5 times three-year rolling cover. However, as per last year, 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 equity fund raise which took place during the year and the forthcoming cash requirements of the business in order to fund the UK site relocation and US expansion.

DIVIDEND

5.10p

6.3% increase

ADJUSTED* BASIC EARNINGS PER SHARE

18.02p

9.8% increase

Balance Sheet

As referenced above, during the year the Group undertook an equity fund raise in order to secure funding to support the Group's capital investment programmes in the UK and US. In December 2017 the Group placed 5.3m shares (approximately 10% of the pre-existing share capital) at a placing price of £4.10 per share. Net of costs this generated £20.8m. Consequently shareholders' funds grew by £35.1m (2017: £9.3m) in the year to £81.6m (2017: £46.5m), with net assets per share increasing by 56% to 137p (2017: 88p). Over the last five years net assets per share have grown by 162%. The Board has chosen not to avail itself of the option under IFRS to revalue land and buildings annually and, therefore, all the Group's land and buildings are held at historical cost, net of depreciation, on the balance sheet.

Cash Flow

As referred to earlier, during the year the Group raised £20.8m from the equity fund raise and as at year end had received £8.7m net of costs in relation to the sale of Earthoil Plantations. The level of capital expenditure in the year was £6.6m compared with £5.2m in 2017, and included £6.0m for the US expansion project which is due to complete at the end of 2018. No major capital projects in the UK were commenced in the year, with the UK site relocation being at the planning stage and capital expenditure tending to be related to ongoing routine renewal and maintenance whilst plans progress towards the intended relocation.

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 five years, had the impending site move not been on the horizon. This includes rationalising tanks, implementing clean-in-place technology and computer-controlled stills.

There was an overall working capital outflow in the year of £12.7m which was driven by an outflow in relation to trade debtors and other receivables of £9.9m. Some of this relates to timing as invoiced sales in the last two months of the financial year were stronger than the comparative period, but the more significant impact concerned large FMCG clients requiring longer payment terms than was previously the case.

Inventory held at the year end was £39.6m (2017: £42.9m), a decrease of £3.3m. Excluding Earthoil, inventory rose by £1.6m on a like-for-like basis. 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 £6.0m, the net free cash flow generated over the last five years totals £6.1m.

Net cash position

As a result of the movement in cash, as described above, the Group moved from a net debt position of £10.2m in 2017, to a net cash positive position of £10.1m in 2018. Although the Group currently has a net cash position, this is due to the fact that the major expenditure on the UK site has yet to commence, with only the land (£3.7m) and some preliminaries having been incurred to date. The Group therefore retains a mix of secured and unsecured borrowing facilities totalling £25.0m, of which £4.3m expires in one year or less. 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.

* All measures are based on continuing operations and adjusted to exclude exceptional items.

Financial review continued

**Compound
10 year Growth* 8.5%pa**

REVENUE*

EBITDA*

12.7%pa

UK Site Relocation

Work towards relocating our UK business from its current site in Bury St. Edmunds, UK, to a brand new purpose-built facility nearby continues. The Group acquired a ten-acre green field site on the new Suffolk Park in Bury St. Edmunds in mid 2017. We are currently in the process of refining our proposals in order to ensure we deliver best value to shareholders. This is a project which the Board believes is essential in order to deliver our growth objectives over the medium to long-term.

The following table breaks down the cost estimates for the project. These cost estimates remain unchanged from the prior year as the Board are committed to delivering this project through a disciplined process of value engineering. As referenced earlier, the project includes 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 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

Of the total budget, £4.2m has been spent to date in relation to acquiring the land and professional fees. We now hope to appoint the main contractors for the project in early 2019 with a view to taking occupation in mid 2020. This is some six months later than previously anticipated as the ultimate designs have taken longer to finalise than had been expected. Consequently, the cash outflows for the project have moved back by between six-nine months. We now, therefore, expect net debt to EBITDA to peak at 1.4x in March 2020.

Whilst the detailed costs for the project have been prepared in full quantity surveyor detail, 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 funding now in place following the share placing, give the Board confidence that risks inherent in the UK relocation project have been mitigated as far as practicable.

US Site Expansion

As reported last year, the US expansion project began earlier in the year in order to double our capacity for the key product categories of tea and sugar reduction, with space for further expansion, as well as expanding our laboratory and office facilities which are now full to capacity. This project is now nearing completion and remains in line with the budget we reported last year of \$14m and equally importantly it remains on time with completion due by the end of 2018, and with the new plant expected to be fully operational in spring 2019.



PROFIT BEFORE TAX***15.2%pa****BASIC EARNINGS PER SHARE*****16.6%pa**

* All measures exclude exceptional items and discontinued operations in 2018, 2008 not restated.

Treatt Employee Benefit Trust and Treatt SIP Trust

The Group has an HMRC-approved Share Incentive Plan (SIP) for its UK employees, and as far as practicable, also offers a similar scheme to its US staff. All UK staff with a year's service were awarded £575 (2017: £550) 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 \$875 (2017: \$850) of Restricted Stock Units during the year. These shares are forfeited by employees who leave within three years from the date of grant.

Under the SIP, UK employees could also purchase up to £1,800 (or 10% of salary, whichever is lower) of Treatt shares out of gross income at no cost to the Company which the Company matched on a one and a half for one basis. In the year a total of 48,000 (2017: 28,000) matching shares were granted.

During the year, 230,000 (2017: 150,000) shares were issued to the SIP at par (2 pence per share). The SIP currently holds 540,000 shares (2017: 356,000), of which 215,000 (2017: 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 US. Under US tax legislation, staff at Treatt USA are able to exercise options annually, whilst the UK schemes provide for three-year saving plans.

Under the Long Term Incentive Plans which were approved by shareholders at the 2014 Annual General Meeting, Executive Directors and certain key employees were granted 205,000 (2017: 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 341,000 (2017: 370,000) shares during the year, whilst 873,000 (2017: 323,000) were exercised from options awarded in prior years which have now vested.

During the year, 1,070,000 (2017: 100,000) shares were issued to the Employee Benefit Trust (EBT) at par (2 pence per share). The EBT currently holds 542,000 shares (2017: 353,000) 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 Treatt 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 three-year actuarial review of the scheme was carried out during the year as at 1 January 2018, the result of which was that the scheme had an actuarial surplus of £473,000 (1 January 2015: £314,000). This represents a funding level of 102%. Consequently, the Group has

been able to agree with the trustees that with effect from 1 October 2018 it would continue not to make any further contributions to the scheme. It was further agreed that if the annual actuarial funding updates, before the next full actuarial review in 2021, 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 2018 which showed a small improvement to a surplus of £0.7m (2017: deficit of £0.3m), being a funding level of 103% (2017: 98%).

Alongside this, the IAS 19, "Employee Benefits" pension liability in the balance sheet, net of deferred tax, fell in the year from £4.8m to £2.9m. The decrease in the deficit was largely the result of updating the IAS 19 calculations in line with the scheme's latest actuarial results, and an increase in the value of scheme assets.



55%

hazardous waste
recycled

Financial review continued

In 2012 we began a new journey for Treatt by establishing a focused strategy of growing our profits in a sustainable manner

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 can fluctuate with Sterling.

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.

When the Group is in a net debt position, the Group has a policy of maintaining the majority of cash balances, including the main Group overdraft facilities, in US Dollars and, to a lesser extent in Euros, as this is the most cost-effective means of providing a natural hedge against movements in exchange rates. Where it is more cost effective to do so, the Group will 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. However, under the technical provisions of IFRS, a number of forward contracts were deemed to be 'ineffective' whilst still achieving the Group's objectives. Consequently a foreign exchange loss of £0.7m is included in other gains and losses in the income statement. 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. Following a very strong performance in 2017 we set ourselves new goals and targets to aim for with our 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.

It is therefore pleasing to report on a year of solid progress with a number of milestones achieved. Profits are up for the sixth successive year; we successfully raised over £20m from the share placing to support the Group's capital investment programme; the US expansion is nearing completion on time and on budget, and the sale of Earthoil Plantations was completed.

Richard Hope

Chief Financial Officer

26 November 2018

Notes:

* All adjusted measures exclude exceptional items and discontinued operations, details of which are given in notes 9 and 11.

Group Five Year Trading Record*

* 2017 and 2018 show discontinued operations separately. Earlier years have not been restated.	2014 £'000	2015 £'000	2016 £'000	2017 £'000	2018 £'000
INCOME STATEMENT					
Revenue	79,189	85,934	88,040	101,250	112,163
EBITDA ¹	9,022	10,109	11,038	14,083	14,853
Operating profit	7,928	8,690	9,549	12,547	13,944
Adjusted ² profit before taxation	6,904	7,950	8,846	11,696	12,642
<i>Growth in adjusted² profit before taxation</i>	10.9%	15.2%	11.3%	32.2%	8.1%
Exceptional items	(1,402)	(174)	(553)	–	(1,105)
PROFIT BEFORE TAXATION	5,502	7,776	8,293	11,696	11,537
Taxation	(1,553)	(1,786)	(2,144)	(3,129)	(2,284)
Discontinued operations	–	–	–	978	2,976
Profit for the year attributable to owners of the Parent Company	3,949	5,990	6,149	9,545	12,229
BALANCE SHEET					
Goodwill	1,075	1,075	2,727	2,727	–
Other intangible assets	726	661	637	604	752
Property, plant and equipment	10,994	10,998	11,361	14,821	20,038
Net deferred tax (liability)/asset	(611)	(390)	325	616	672
Non-current trade and other receivables	586	–	–	–	–
Current assets	43,590	45,045	54,435	68,230	102,402
Current liabilities	(16,005)	(13,481)	(16,388)	(27,003)	(35,781)
Non-current trade and other payables	(23)	–	–	–	–
Non-current bank loans	(7,857)	(7,065)	(7,755)	(7,293)	(3,001)
Post-employment benefits	(2,529)	(2,959)	(7,401)	(5,821)	(3,457)
Non-current derivative financial instruments	(511)	(699)	(754)	(403)	–
Non-current redeemable loan notes (net)	(675)	–	–	–	–
Total equity	28,760	33,185	37,187	46,478	81,625
CASH FLOW					
Cash generated from operations	3,528	8,667	10,804	4,683	3,581
Taxation paid	(1,552)	(1,469)	(2,022)	(2,822)	(2,978)
Net interest paid	(724)	(740)	(703)	(913)	(610)
Dividends paid	(1,899)	(1,978)	(2,095)	(3,025)	(2,876)
Additions to non-current assets net of proceeds	(746)	(1,027)	(788)	(5,203)	(6,579)
(Acquisition)/disposal of subsidiaries	–	–	(752)	(900)	8,746
Purchase of redeemable loan notes	–	–	–	(675)	–
Net sale of own shares by share trust	91	180	265	355	586
Proceeds on issue of shares	–	–	–	–	20,833
Other	12	(204)	(208)	(71)	(419)
Movement in net debt	(1,290)	3,429	4,501	(8,571)	20,284
Total net (debt)/cash	(8,584)	(6,155)	(1,654)	(10,225)	10,059
RATIOS					
Net operating margin ³	9.6%	10.1%	10.8%	12.4%	12.4%
Return on capital employed ⁴	19.9%	22.1%	24.6%	22.1%	18.5%
Average net debt to EBITDA ⁵	0.99	0.78	0.35	0.42	0.01
Adjusted ² basic earnings per share	9.95p	11.94p	12.84p	16.41p	18.02p
<i>Growth in adjusted² basic earnings per share</i>	15.2%	20.0%	7.5%	27.8%	9.8%
Dividend per share ⁶	3.84p	4.04p	4.35p	4.80p	5.10p
Dividend cover (adjusted to exclude exceptional) ⁶	2.58	2.94	2.94	3.40	3.42
Net assets per share	55.0p	63.0p	71.0p	87.9p	137.3p

Notes:

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

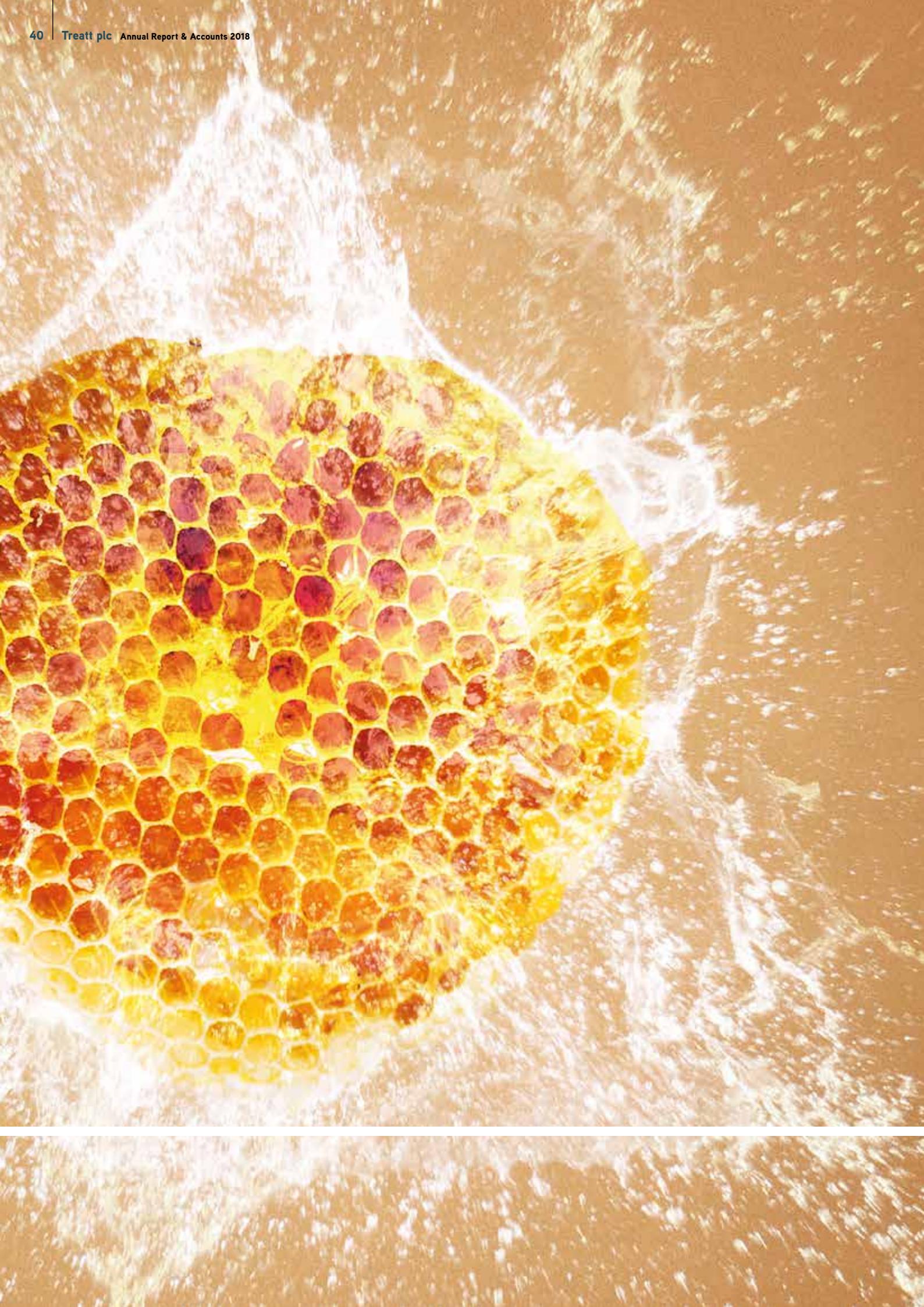
2 All adjusted measures exclude exceptional items – see note 9.

3 Operating profit divided by revenue.

4 Profit before interest, taxation and exceptional items 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.



Working responsibly means continuously evaluating ways of improving the Group's commitment to the environment, our people and the communities we work in

33%
women in senior management positions

↓67%
Kenya Diesel
Kg CO₂e
2018: 710 KgCO₂e
2017: 2,132 KgCO₂e

↓22%
UK General Waste
2018: 33t
2017: 42.5t

Working responsibly

The Group is committed to good environmental practice

SUSTAINABILITY

We take our social responsibility seriously and have a reputation for behaving ethically and in an environmentally and socially responsible way. Operating in a responsible manner is an important aspect of our ability to deliver our strategic objectives and in creating long-term value. Our activities are focused on the areas where we feel we can make a real difference – the environment, our employees and the local communities in which work.

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 continues to manage 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 can affect crop yields resulting in higher raw material prices and limited supply. A significant drought in São Paulo, Brazil, decreased the 2018 orange crop by over 30%. Hurricane Irma hit Florida mid-September 2017 and resulted in the highest and most sustained price increase

Environmental Improvements in 2018

The Group continuously evaluates ways of reducing its impact on the environment and during the year a number of improvements and initiatives have been implemented 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 0.5t (2017: 2t) due to a decrease in processing; the threshold limit is 10t;
- 1,606t of material sent to anaerobic digester (2017: nil);
- 55% hazardous waste recycled (2017: 54%);
- 100% of used drums recycled (2017: 100%);
- cardboard skip for production packaging introduced in August 2018 as a dedicated waste stream. 670kg leaving site in September 2018 for waste recovery (previously included in general waste);
- general waste reduced to 33t (2017: 425t) with 100% of the waste diverted from landfill and sent to an energy recovery facility for electricity generation;
- Safety, Health and Environmental (SHE) Champions replaced Waste Champions to enable greater consideration of environmental impacts resulting from operations; and
- plastic cups no longer used at water stations and all staff issued with reusable drinking bottles.

Treatt USA

- installation of a liquid ring vacuum pump has reduced Volatile Organic Compound (VOC) emissions for blending tank filling operations to virtually zero. Other front-end separation units have also reduced emissions; the pump eliminates oil spillage which is beneficial to the surrounding environment;
- installation of a boiler blow-down separator (flash tank) and associated piping to the sewer system eliminates overflows from a collection tote used to cool the boiler water; the system also improves the condition of the boilers;
- installation of an A&D Pot Cooling system, designed to improve efficiency by lowering the time to cool down the still for cleaning and condensing residual VOCs;
- installation of a steam evacuation system also reduces VOCs entering the environment;
- installation of replacement still receiver gauges, which reduce the risk of spills; and
- repair of existing injection well, as part of a larger effort to increase well water capacity, has eliminated ground water leakage benefitting the surrounding area.



Kenya

- florescent tube lighting in the factory replaced with LED lighting;
- halogen and energy consuming lights in offices and farm compound replaced with LED lighting and solar flood lights;
- two internal appointments to Champions of Environment and Waste Management;
- waste management incorporated into internal quarterly all staff refresher training;
- inefficient seed dryer decommissioned and more efficient seed dryer installed to reduce biomass fuel consumption and environmental pollution;
- forklift fuel usage monitoring log introduced to monitor use of petrol;
- gasifier wood stoves provided to growers to minimize use of firewood achieving Carbon Zero Certification for both Kenyan sites;
- fabrication of biochar kilns to convert distilled tea tree waste into biochar (through pyrolysis) for use on tea tree fields for carbon sequestration improving soil structure and nutrient loss through leaching;
- winner of KAM (Kenya Association of Manufacture) Gala award for implementing good energy management practices under the 'Savings Made' category;
- hosted the United Nation Industrial Development Organization's (UNIDO) four African countries delegation show, in conjunction with the Kenya National Cleaner Production Center (KNCP), to showcase best waste management;
- environmental management lessons continue to be included in environmental, health and safety training;
- annual environmental audits continue for compliance with statutory regulations; and
- the "Reuse & Reduce" initiative encourages staff to reuse envelopes, printing papers and double sided printing.

for grapefruit oil ever seen. Unusual weather patterns in Florida in the first half of 2018 delayed the regular processing of spring crops including cucumber, watermelon, pepper and cantaloupe. Alternative sources are utilised when usual conditions are compromised and having access to these sources is key when working with natural crops.

Additionally, the reduction in the number of printed copies of the report and accounts required to be posted to shareholders has been maintained by giving them the option to receive the annual report electronically through the Treatt website. The 75% reduction has saved several thousand pounds per year and reduced the environmental impact of the financial reporting process.

The intended site relocation of Treatt's UK operation and site expansion, underway at Treatt USA, provides 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 2018 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.

GHG emissions detailed in the table have been calculated using the appropriate 2018 DEFRA conversion factors, except for overseas electricity which used the 2015 IEA conversion factor.

Following a significant decrease in total emissions in 2017, by 2,554 tonnes of CO₂e, there has been a further decrease in 2018 of 18 tonnes of CO₂e. The increase in Scope 1 emissions is largely due to the site expansion being carried out at Treatt USA coupled with production in the US increasing from a 24/5 pattern to 24/7. Electricity consumption remained consistent in the UK and Kenya and increased in the US, again due to the site expansion and increase in production hours. Scope 2 emissions decreased across all sites due to a reduction in the conversion factors used to calculate the emissions.

An increase of 644,748 kgs of product shipped during the year to 8,184,729 kgs (2017: 7,539,981 kgs) reflects the continued growth of the business.

Greenhouse Gas Emissions

	2018	2017
Scope 1 – Direct CO ₂ emissions (tonnes CO ₂ e)	1,589	1,394
Scope 2 – Indirect CO ₂ emissions (tonnes CO ₂ e)	1,336	1,549
Total tonnes CO ₂ e emissions	2,925	2,943
gCO ₂ e emissions per kg of product shipped	357	390

Working responsibly continued

The Group is committed to a policy of recruitment and promotion on the basis of aptitude and ability without discrimination

Waste

Treatt USA aims to recycle as much of its waste as possible. A consistent theme in the environmental improvements made during the year 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 previously mentioned increase in production hours at Treatt USA has significantly contributed to the higher level of water consumption during the year.

Water efficiency

	2018	2017
Total water used (m ³)	43,475	36,946
Water efficiency (litres per Kg of product shipped)	5.31	4.90

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.

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 received from people with disabilities are given full and fair consideration for suitable vacancies, having regard to their particular aptitudes and abilities.

The focus on training continued in 2018 in order to continuously improve the skills of our employees through both general and targeted training programmes 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 ongoing 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.

The Group continues its commitment to students and apprentices in the UK and US and offers internships in sales and technical. There are currently four apprentices across the business at the UK site who are provided with a structured training and qualification programme. There are also two interns who, whilst developing their knowledge and gaining practical experience, are providing a valuable resource to the technical department. These initiatives also strengthen the Group's links with universities and develop relationships with the next generation of talented candidates. Educational support is provided in the UK and schoolchildren encouraged to spend time in the business through educational visits and work experience placements. Expertise is also shared with students at careers and science fairs. Colleagues from various departments held mock interviews with 13 and 14 year-old students at a local school to help the students develop their communication skills and confidence.

EMPLOYEE INVOLVEMENT

Executive Directors make half yearly results presentations to all colleagues and encourage questions and dialogue on every aspect of the Group's performance and activities. At R C Treatt the Information Exchange Committee (IEC) enables an exchange of ideas and information between the Company and its employees. The IEC is chaired by the CEO and its members are all colleagues below management level who represent every department and area of the business in the UK. The Executive Directors regularly have lunch with colleagues to hear their views on the business. At Treatt USA the Vice Presidents regularly hold "town hall meetings" to communicate a variety of subjects and provide colleagues 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, engaging in meaningful discussions with colleagues of all levels within the organisation.

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 29).

The Share Incentive Plan is run for all UK employees, with a similar plan for US employees. Under these plans, all eligible UK and US employees have received free shares (or their US equivalent) since 2014 and will do so in December 2018; 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 by encouraging greater employee shareholding the interests of employees is further aligned with shareholder interests. As employees based in the US can find it problematic to sell shares in a UK listed company the Company has set up a Vested Share Trust Account. This provides a platform from which US employee shareholders can sell their shares more easily which should encourage higher levels of employee ownership in the US.

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 rare for women to apply for positions within the production and despatch areas, where manual handling is a significant part of the role. The number of women remains at 37% (2017: 37%) of the Group workforce. The number of women in Group senior management positions is 33% (2017: restated at 33%). Senior management has been redefined as Group Leadership Team and restated for 2018 to ensure a consistent reporting approach.



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 as 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 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 employees, as far as their roles permit, to work from home and provides general flexibility. Such policies assist in the recruitment and retention of a diverse workforce.

Working responsibly continued

Community funds provide additional benefits to the farmers and their families

SOCIAL, COMMUNITY AND HUMAN RIGHTS ISSUES

The Group endeavours to have a positive impact on the communities in which it operates and over the last few years has significantly increased its presence in these communities. During the year the Group made charitable donations of £25,000 (2017: £23,000) to local and national causes, and has been involved in many initiatives across its locations.

The Treatt Community Spirit Initiative goes from strength to strength and provides opportunities for employees to support local causes. Activities carried out include litter picks and assistance in a charity's warehouse as well as supporting local fundraising events both during working hours and in colleagues' own time. The Company donates additional funds to money raised by colleagues during the fundraising activities through its matching scheme.

"Payroll Giving", operates in the UK and enables colleagues to donate regularly to their chosen charities from their gross pay; money is also raised for a local charity via a monthly lottery administered via payroll.

The charities Treatt continually supports include: kidsPACK children's charity, Florida Youth Fair, the Grow into you Foundation for teens leaving the foster system, Toys for Tots-Boxes in the US and East Anglia's Children's Hospice, My Wish Charity supporting West Suffolk Hospital, UpBeat Heart Support, St Nicholas Hospice and MIND and Bury in Bloom in the UK.

In support of a charitable initiative, UK colleagues were invited to enjoy a locally roasted coffee and homemade brownie with a percentage of the proceeds being donated to the Upbeat Heart Support Group. Similar initiatives take place in the US, and a party of volunteers regularly give their own time to collect rubbish on local roads as part of the Florida Department of Transportation's "Adopt A Highway" scheme.

The Kenya companies are committed to purchasing oils directly from source at a fair and sustainable price and work 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 their partner, the Kenyan Organic Oil Farmers Association

(KOOFA), increasing from its initial 90 members to over 900 producers. Our Kenyan businesses have helped deliver over 300 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 3,000 family members utilise the new water tanks, freeing up time usually spent fetching or buying water for other activities.

Additionally, through the donation of efficient gasifier stoves to Kenyan farmers, the Kenya companies continue 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. Tanks and taps have also been gifted to KOOFA farmers and shopping vouchers issued.

Diversity

Position	Male	Female	Total
Group Directors	6	1	7
Senior Managers	6	3	9
Other Employees	212	132	344
Total Employees	224	136	360

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.

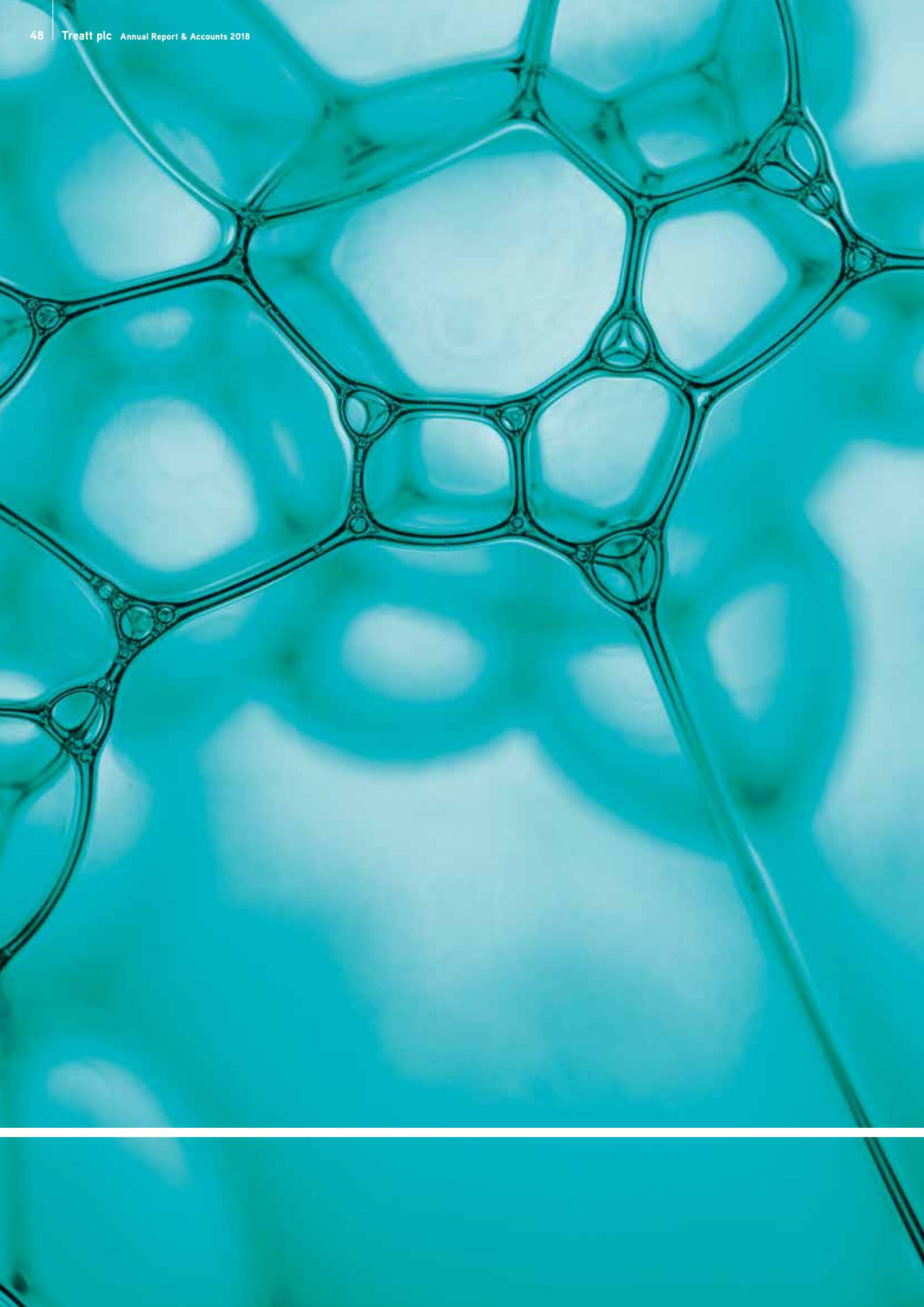
This Strategic Report was approved by the Board on 26 November 2018.

Signed on behalf of the Board.

Anita Steer

Secretary





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Leadership
Effectiveness
Accountability
Relations with shareholders
Remuneration

Board of Directors



DAEMMON REEVE

Chief Executive Officer



Appointed Chief Executive Officer in 2012.



TIM JONES

Non-executive Chairman



Chair
Led Treatt's Board as its Chairman since his appointment in 2012.



RICHARD HOPE

Chief Financial Officer

Appointed to the Board in 2003.

Daemmon joined RC 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. He was appointed CEO of Treatt USA in 2010 and became Group CEO in 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 the engaged teams which is driving the success of Treatt. Seeing our excellent team succeed is what excites Daemmon most about Treatt.

Tim began his 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.

He 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 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.

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. Prior to joining Treatt, Richard held several senior finance positions for almost 20 years in value-added manufacturing businesses, including Hampshire Cosmetics Limited.

He was awarded Finance Director of the Year at the 14th Grant Thornton Quoted Company Awards in February 2018 and was a Finalist for the Shares Magazine Finance Director of the Year award, part of the UK Stock Market Awards, in 2017.

Richard 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.

Key External Appointments:

No external appointments.

Key External Appointments:

Non-executive Director of Retail Charity Bonds plc.

Key External Appointments:

No external appointments.



BOARD GENDER DIVERSITY

Female	14%
Male	86%



BOARD INDEPENDENCE

Independent	57%
Non-Independent	43%



BOARD EXPERIENCE

0 - 5 yrs	28.5%
6 - 10 yrs	43%
Over 10 yrs	28.5%



JEFF ILIFFE
Non-executive Director

Chair
Appointed to the Board in 2013.



DAVID JOHNSTON
Non-executive Director*

Chair
Appointed Non-executive Director in 2011.



ANITA HAINES
Non-executive Director

Chair
Appointed to the Board as HR Director in 2002 and became Non-executive Director in 2014.



RICHARD ILLEK
Non-executive Director

Chair
Appointed to the Board as Non-executive Director in 2016.

Jeff 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.

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, which focuses on the development and sales of taste modifying compounds.

Anita joined RC Treatt & Co Ltd as Company Secretary in 1988. In 2000 she was appointed as Human Resources Manager and HR Director for the Group in October 2002. She retired as an Executive Director in February 2014 but remained on the Board as a Non-executive Director. Anita has announced her intention to retire from the Board at the conclusion of the 2019 Annual General Meeting.

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 numbers have grown, and Treatt has become international, people are still at the heart of the business.

Richard retired from PepsiCo in March 2016, following 28 years with the company. During that time he served in various senior positions around the world including Plant Manager, QA Manager and Technical Services Director, culminating in his most recent role as Senior Director of Manufacturing and Formulations.

Key External Appointments:

Non-executive Director of Cambridge Nutraceuticals Limited.
Trustee of Cambridge Arts Theatre.

Key External Appointments:

Non-executive Director of James Finlay Limited.

Key External Appointments:

No external appointments.

Key External Appointments:

No external appointments.

An experienced Board with over
59 years'
combined experience at Treatt

Committee Membership key

● Nomination committee

● Remuneration committee

● Audit committee

* Senior Independent Director

Corporate Governance Statement



Introduction from the Chairman

As the business continues to grow it needs a strong, effective and engaged Board, with the right skills and experience to oversee the strategy, governance, risk and financial frameworks across the business.

Effective governance drives the Company in balance with the interests of shareholders and wider stakeholders; employees, customers, suppliers and the communities in which the Company does business. At Treatt our commitment to high standards of corporate governance throughout the Group is reflected in our principles, policies and practices. I am clear that effective governance right across the business, ultimately produces a better Company and optimum long-term performance.

As Chairman, it is my task to ensure that the Board upholds high standards of corporate governance and that it operates effectively in accordance with the principles of the UK Corporate Governance Code. A new Corporate Governance Code has been published in 2018, which comes into effect on 1 January 2019; references to the Corporate Governance Code in this section and throughout this annual report are to the 2016 Code, unless otherwise stated.

Board Effectiveness

This year saw us increase the number of formal Board meetings to ensure that we had sufficient time to fully discuss the additional matters of the equity fundraise and the sale of Earthoil Plantations, both important strategic decisions. I am in regular contact with the executive team and the rest of the Board as

I aim to ensure that there is an appropriate level of support, oversight and challenge, a focus on entrepreneurship as much as on risks, a commitment to transparency and a culture of continuous improvement.

Our annual Board meeting at Treatt USA took place in March, enabling colleagues and me to meet with the Project Manager of the site expansion at commencement of the works and to see first-hand the scale of the project, which will bring much needed additional capacity. This visit also provided the Board with an opportunity to engage with our US-based employees and to chat to them about the business. Similarly, there have been opportunities to meet with employees in the UK, enabling the Board to get a view of how well the strategy has embedded in the business.

There were no changes to the composition of the Board during the year and I have met with the Non-executive Directors without the presence of the Executives. The Nomination Committee continues to review the Board's composition to ensure that it maintains appropriate skills, experience, independence and diversity. The culture of the Board is based on accountability and is open and collegiate whilst allowing for constructive debate and challenge.

The evaluation of the Board and the Directors has taken place with the assistance of the Company Secretary, with all Directors undergoing a 360 evaluation on their individual performance. Further information is provided in my Nomination Committee Report on page 57.

Compliance with the Corporate Governance Code

Throughout the year ended 30 September 2018 the Group has complied with the provisions set out in the 2016 Corporate Governance Code (a copy of which can be found at www.frc.org.uk) except for provision D2.2, as explained in the Directors' Remuneration Report. The remuneration of Group senior managers was determined by the Executive Directors, with an oversight review of the proposals by the Remuneration Committee reporting back to the full Board. The bonus and LTIP awards of all senior managers in the Group were approved by the Remuneration Committee. With effect from 2019, the salaries and benefits of all senior managers will be determined by the Remuneration Committee, in accordance with the 2018 Corporate Governance Code and the terms of reference of the Remuneration Committee have been amended to reflect this change. Furthermore, the Group already complies with a number of the new provisions of the 2018 Code. In accordance with provision 5, myself and David Johnston are designated as the Non-executive Directors responsible for workforce engagement and all staff are aware. Additionally, all Directors will stand for re-election at the Annual General Meeting in January 2019 in accordance with provision 18.

Tim Jones

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	Chairman
Number of meetings held in year	9	3	1	5	
Daemon Reeve – Chief Executive Officer	9	N/A	1	N/A	
Richard Hope – Chief Financial Officer	9	N/A	N/A	N/A	
Tim Jones – Non-executive Director and Chairman	9	3	1	5	● ● ●
Anita Haines – Non-executive Director	9	N/A	1	N/A	
Jeff Iliffe – Non-executive Director	9	3	1	5	●
Richard Illek – Non-executive Director	9	N/A	1	5	
David Johnston – Senior Independent Non-executive Director	9	3	1	5	●

As permitted by the 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.

Leadership

Roles and Responsibilities

Details of the Directors who served during the year, the positions they hold, and the Committees of which they are members are shown on pages 50 and 51. The Board consists of Non-executive Chairman, Tim Jones, and four further Non-executive Directors. Daemon Reeve is CEO.

There is a clear division of responsibility between the CEO, 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 ensure the Board and its committees are effective and operate under the highest standards of corporate governance; to set the Board agenda and ensure that adequate time is allowed for discussion, in particular, of strategic, complex or contentious issues in anticipation of which accurate, timely and clear information has been circulated in good time; to ensure appropriate delegation of authority from the Board to executive management and constructive, open relations between them; to act at the same time as a sounding board, counsel and mentor to the CEO; to ensure that the Company maintains a dialogue with its principal shareholders about strategy, direction, Directors' and senior managers' remuneration and is aware of shareholders' issues or concerns; to ensuring that the performance of individual Directors and the whole Board and

its committees is evaluated at least annually and that Directors are continually encouraged to update their skills and the knowledge and familiarity with the Company as required to fulfil their role.

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.

Matters Reserved for the Board

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.
- dividend policy.
- annual and half year results.

Committees

The Board has three sub-committees; the Nomination Committee chaired by Tim Jones, the Audit Committee chaired by Jeff Iliffe and the Remuneration Committee chaired by David Johnston. Further details of the committees can be found on pages 56 to 75. The terms of reference of all the Committees can be found on the Treatt website at www.treatt.com.

Corporate Governance Statement continued

The Board typically meets between seven and ten times each year and more frequently where business needs require

Effectiveness

Board Composition

The Board has been regularly refreshed since 2011 to ensure that it 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, which has been the subject of recent debate in respect of Board composition, is recognised and supported by the Directors of Treatt. 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 45.

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, 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.

Appointments to the Board

Directors are provided with access to appropriate external training and to advice from the Group's solicitors in respect of their role and duties as a public company director. 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.

Commitment

The Board typically meets between seven and ten times each year and more frequently where business needs require; attendance is required in person or by video conference at each meeting. In addition, regular contact is maintained by email and telephone with written updates provided in respect of ongoing issues, enabling regular input from all Board members. The Board recognises the importance of holding a meeting at Treatt USA at least annually in light of the increasing contribution to Group profits generated there.

Development

The Chairman is responsible for ensuring that all Non-executive Directors receive ongoing training and development. During the year all of the Board became members of the Institute of Directors, and registered with the IoD Academy, providing a range of learning and development programmes to expand and update directors' knowledge and skills. Directors are able to access appropriate CPD content from a variety of sources in addition to attendance at seminars and workshops. Our Directors understand the need to keep themselves properly briefed and informed about current issues. Regular updates on regulatory and legislative developments are provided to the Board by the Company Secretary.

Information and Support

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 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 Chairman 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.

Evaluation

The Board, committees and the Directors individually have been evaluated during the year, full details of which can be found in the report of the Nomination Committee on page 57.

Re-election

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, however in anticipation of the 2018 Corporate Governance Code, all Directors will offer themselves for re-election at the 2019 Annual General Meeting.

This report was approved by the Board on 26 November 2018.

Anita Steer
Secretary

During the year all of the Board became members of the Institute of Directors, and registered with the IoD Academy

Nomination Committee

The Nomination Committee is responsible for the annual evaluation of the Board, its committees and its Directors



Tim Jones

Chairman Nomination Committee

MEMBERS

Tim Jones

Chairman

Daemon Reeve

Chief Executive Officer

Anita Haines

Non-executive Director

Jeff Iliffe

Non-executive Director

Richard Illek

Non-executive Director

David Johnston

Non-executive Director

MEETINGS THIS YEAR

1

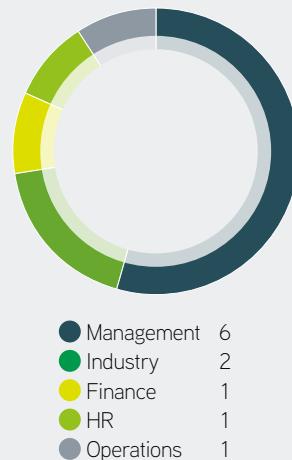
Attendance


100%

ACHIEVEMENTS IN 2018

- 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.

COMMITTEE EXPERIENCE



Meetings

The Nomination Committee has met once during the course of the year. The committee has worked extensively on succession planning since 2016 and will be selecting candidates to succeed Anita Haines who, sadly, retires with effect from the 2019 Annual General Meeting.

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 Executive Directors and senior management, 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

- analysis of the results of the Board evaluation process and consideration of training needs and action points;
- receive a report from the Chairman on the individual evaluation of the Directors;
- review of the performance of the committee;
- review of the terms of reference of the committee; and
- update on CEO and CFO 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 are considered. The committee, using the skills matrix of the Board, considers the skills mix to identify potential gaps or areas where increased strength is required. The skills matrix requires Board members to rate the strength of their experience in sixteen skills across areas such as strategy, finance, risk management, stakeholder engagement and corporate governance and ethics. The skills matrix is reviewed annually by each Director and the Chairman.

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 race, disability, gender, sexual orientation, religion, belief, age and culture. When appointing Non-executive Directors, their independence is a key consideration.

When a vacancy on the Board exists or where additional skills are required an appropriate independent search and selection agency will be engaged to assist in the search for suitable candidates. Members of the committee will be involved in the interview process and the recommendations of the committee are ultimately made to the full Board which considers them before any appointment is made. The committee has not previously involved shareholders or other stakeholders in the appointment process.

Board and Committee Evaluation

The Nomination Committee is 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 was carried out internally, with the assistance of the Company Secretary. The Board will undertake an external evaluation during the 2019 financial year. The Board and committee reviews are conducted under the supervision of the

appropriate Chairman. In 2017 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 Board evaluation process used a tailored questionnaire that reviewed effectiveness through selected questions focusing on the principles of corporate governance, and results compared against the prior year's evaluation. The results were discussed by the Nomination Committee and recommendations for continuous improvement made to the 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 performance of individual Directors was evaluated by the Chairman. The Chairman was evaluated by the Senior Independent Director, having sought input from the other Non-executive Directors. The process involved completion of a self-assessment and a 360 evaluation by other Board members and the Company Secretary. In addition, the CEO and CFO were each evaluated in an anonymous 360 evaluation completed by the senior management teams in the UK and US. The results of the evaluations formed the basis of the discussions with the Chairman and in the identification of objectives for the coming year.

Having used Evalu8 questionnaires last year, the performance evaluation of each committee was led by the Chairman of the committee. 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.

Tim Jones

Chairman

Nomination Committee

Audit Committee

The Audit Committee is an essential part of Treatt's governance framework which oversees accounting and financial reporting processes



Jeff Iliffe

Chairman Audit Committee

MEMBERS

Jeff Iliffe

Non-executive Director

Tim Jones

Chairman

David Johnston

Non-executive Director

MEETINGS THIS YEAR

3

Attendance



100%

ACHIEVEMENTS IN 2018

- review the content of the annual report and advise on whether, taken as a whole, it is fair, balanced and understandable;
- oversee the relationship with the external auditor and monitor their independence and objectivity.

COMMITTEE EXPERIENCE



Management	3
Industry	1
Finance	1

ACCOUNTABILITY

Membership and Meetings

Each of the members of the Audit Committee 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 other members of the committee have financial and commercial expertise, with David Johnston having significant industry knowledge and experience.

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 CEO, CFO 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 CFO 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 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 and report to the Board on the Group's annual report for 2018 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, significant financial reporting issues and judgements contained therein, and discussions with 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;
- consideration of the process for auditor rotation and the audit tender process;
- reviewing the operation of the policy on the provision of non-audit services by the external auditor;
- reviewing the performance of the Audit Committee; and
- reviewing the terms of reference of the Audit Committee.

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 appraised of its key themes and to raise any issues early in the process. The 2018 annual report was reviewed at a Committee meeting in November 2018; 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.

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.

Audit Committee continued

Significant Judgements and Issues

Amongst the matters considered by the committee were the key accounting issues, matters and judgement in relation to the Group's 2018 annual report and financial statements relating to:

- the sale of Earthoil Plantations Limited in order to ensure that the gain on disposal is calculated accurately and in accordance with the disclosure requirements of IFRS 5 'Non-current assets held for sale and discontinued operations'. Discussions took place with the auditors to ensure that they critically reviewed the disclosure on this point;
- the level of materiality to which the auditors work. In order to remain consistent with previous years, the committee requested that the auditors reduce the level of materiality, determined by the standard method for calculating materiality, to a substantially lower level to provide the committee with additional comfort;
- 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.

Fair, Balanced and Understandable

In assessing whether the annual report, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy, the committee ensures that:

- an experienced team is responsible for co-ordination of content, which is subject to a detailed cross functional review;
- senior management confirm that the content in respect of their areas of responsibility is considered to be fair, balanced and understandable; and

- the committee receives an early draft of the annual report to enable timely review and comment.

These processes allowed the Audit Committee to provide an assurance to the Board to assist them in making the statement required by the 2016 UK Corporate Governance Code.

The Committee also reviewed compliance with the disclosure requirements on Directors' remuneration and the Strategic Report.

Risk Management and Internal Controls

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, the Board has once again reviewed delegation of risk and internal controls to the committee and decided that due to the size of the Group, risk management and internal controls should remain with the full Board, rather than being delegated to the Audit Committee. Consistent with this approach, the Board also retains responsibility for reviewing the assumptions underlying both the going concern and longer-term viability statements made in the annual report as detailed on page 77. As the Group continues to grow, the delegation of these matters will remain under review. The principal risks and uncertainties are set out on pages 26 to 31.

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 and discussed 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 31 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 had no previous connection with Treatt, was appointed in 2017. 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 2018 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.

In 2017 the committee considered The Statutory Auditors and Third Country Auditors Regulations 2016 which will result in the mandatory rotation of the 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 2017, 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 2019.

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 a policy for the provision of non-audit 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.

Whistleblowing

The committee is satisfied that appropriate arrangements are in place so that employees of the Group may, in confidence, raise concerns about possible improprieties in matters of financial reporting or other matters. During the year the Board undertook a biennial review of the Whistleblowing Policy, which provides staff with a direct means of contacting the Chairman of the Board, the Audit Committee Chairman or the Senior Independent Director.

Effectiveness of the Committee

The effectiveness of the committee was considered as part of the Board evaluation detailed on page 57 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.

Jeff Iliffe

Chairman

Audit Committee

RELATIONS WITH SHAREHOLDERS

The Group places a great deal of importance on communication with its shareholders and recognises the important role that shareholders play in safeguarding the Company's governance. The Board receives updates on the views of our shareholders expressed during our interactions with them and from our brokers.

In the event that shareholders have any concerns, which they do not wish to address through the CEO or CFO, the Chairman or Senior Independent Director are available to address them. Both make themselves available, when requested, for meetings with shareholders on issues relating to the Company's governance and strategy.

Interaction with shareholders may take place through:

Results Presentations	Shareholder Meetings	Annual General Meeting	Consultation
We hold three days of analyst and investor meetings and presentations following the release of our annual and half-year results in which we aim to see as many institutional shareholders as possible, providing them with an opportunity to ask questions about the Company. We make these presentations available on our website for all shareholders.	During the year, conference calls and meetings at the Company's registered office took place with existing and potential shareholders. These meetings were attended by either the CEO or the CFO or both. The meetings provide an overview of our business and the industry in which we operate and focus on the implementation of our strategy. Directors meet with shareholders both before and after annual general meetings.	In a change to recent years the 2018 Annual General Meeting was held off site due to increasing attendance. However, the 2019 Annual General Meeting will return to our registered office on Friday 25 January at 10.30am. The Annual General Meeting gives shareholders the opportunity to hear about the general development of the business and to ask questions to the Board.	In recent years we have consulted with our major shareholders in relation to Director remuneration and auditor rotation. Consultation provides us with an opportunity to gauge shareholder opinion and respond to any concerns raised.

Directors' Remuneration Report

The policy is to ensure that remuneration structures are transparent and proportionate



David Johnston

Chairman Remuneration Committee

MEMBERS

David Johnston

Non-executive Director

Tim Jones

Chairman

Jeff Iliffe

Non-executive Director

Richard Illek

Non-executive Director

MEETINGS THIS YEAR

5

Attendance

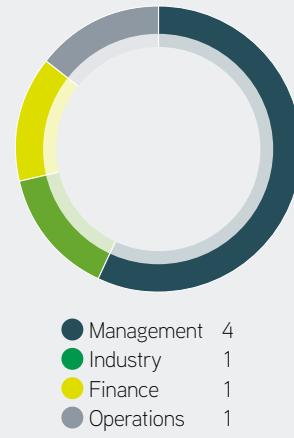


100%

ACHIEVEMENTS IN 2018

- review of the remuneration policy;
- review of and the remuneration arrangements for the Executive Directors and Chairman; and
- review of the rules of the 2019 Treatt LTIP.

COMMITTEE EXPERIENCE



Annual Statement of Remuneration

As Chairman of the Remuneration Committee, I am pleased to present our report on Directors' remuneration for 2018.

Remuneration

2018 Directors' Remuneration Policy

At the Annual General Meeting last year we proposed a new Remuneration Policy, which is detailed on pages 65 to 69, and this received strong shareholder approval, with 99.83% of votes cast in favour. We engaged with shareholders prior to the publication of the policy and we do not propose any changes at the 2019 Annual General Meeting; the policy will apply for a period of three years from the date of approval, subject to any changes being made in the intervening period. The Implementation Report, which details the remuneration paid to the Directors during the financial year under review, will be put to an advisory vote at the Annual General Meeting on 25 January 2019.

Performance outcome for 2018

As detailed elsewhere in this report, the Group continued to perform well in 2018, with growth in revenue and adjusted pre-tax profit in excess of the average growth rate within our industry, which historically rarely exceeds 2.5%. In addition, the Group successfully sold Earthoil Plantations Limited, a non-core part of the business. In accordance with the rules of the Executive Directors' Annual Bonus Scheme, the committee concluded that performance in the year justified a bonus payment of 92.5% of salary for the Executive Directors. Additionally, the grant of LTIPs made to the Executive Directors in 2015 will vest in full in December 2018, following achievement of the EPS growth performance target over the three year performance period (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 exercise. LTIP awards granted from 2017 will be subject to a two year holding period.

Looking ahead to 2019

For financial year 2019, no changes on remuneration for our Directors are proposed other than where we have previously informed shareholders of prospective actions.

In last year's Annual Statement, I set out in detail our proposal to increase our Executive Directors' salaries on a phased basis over a two-year period, and the related rationale for this change. The second phase of this increase was dependent upon continued strong performance by our Group and by the individual Directors. Having reviewed performance in the 2018 financial year, the committee concluded that it was appropriate to confirm the second phase of the proposed increases. Accordingly, for financial year 2019, our Executive Directors' salaries are as follows:

- Daemon Reeve – £330,000 (FY2018: £305,000)
- Richard Hope – £220,000 (FY2018: £202,000)

We are grateful for the support given by our shareholders for this proposal at our 2018 Annual General Meeting.

The only other action which we have taken on pay levels in 2018 relates to the Chairman's fees. In last year's Directors' remuneration report we indicated that a further review of the Chairman's fees would be carried out. Having considered the Group's sustained performance and the increased complexity of the role which our Chairman continues to play in leading and guiding our Board, the Remuneration Committee felt that it was appropriate to move the Chairman's fee to £100,000 p.a. for the 2019 financial year (2018: £80,000).

We believe that this fee level is fair and approaches the lower end of the "market rate" for a FTSE SmallCap Company Chairman (i.e. it is below the £120,000 lower quartile fee level for Chairmen of FTSE SmallCap companies). Treatt has continued to perform well in 2018 with our TSR performance remaining above that of the FTSE SmallCap over the 2017 and 2018 financial years, as shown in the table on page 72.

At the 2019 Annual General Meeting shareholders will be asked to approve the rules of the Treatt LTIP for a further period of five years. The rules are largely unchanged from the current LTIP, with only minor amendments made to take account of changes in executive remuneration since 2014, when the last rules were approved by shareholders. Potential award levels are not increased. A summary of the 2019 rules can be found in the notice of Annual General Meeting.

Directors' Remuneration Report continued

Annual Statement of Remuneration continued

In Conclusion

Even though there was strong support for the Remuneration Policy at the 2018 Annual General Meeting, the committee will continue to review the Remuneration Policy annually to ensure that it continues to deliver value for the business and rewards management appropriately within the context of remuneration best practice, and in the 2019 financial year we will be further considering the remuneration aspects of the new UK Corporate Governance Code. We believe the policy continues to be fit for purpose and, as stated above, it will therefore remain unchanged this year.

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 Annual General Meeting. I will be available at the Annual General Meeting to answer any questions you may have.

David Johnston
Chairman
Remuneration Committee

Note

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.

Activities since the last report

- approval of the 2018 Directors' Remuneration Report;
- agreement of the bonuses payable for the 2018 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;
- review of the remuneration policy and the remuneration arrangements for the Executive Directors and Chairman;
- reviewing salary levels for the Executive Directors and Chairman and agreement of salary and fee increases for the 2019 financial year;
- oversight review of the salary increases of Group senior managers for the 2019 financial year;
- reviewing the rules of the 2019 Treatt LTIP and recommendation to the Board;
- 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;
- reviewing the quality of the advice received from FIT Remuneration Consultants and whether it was objective and independent;

- discussing the new remuneration requirements of the 2018 Corporate Governance Code and The Companies (Miscellaneous Reporting) Regulations 2018;
- reviewing Executive Directors shareholdings against the requirements of the Share Retention Policy;
- discussing potential non-financial performance targets for future awards under the LTIP and bonus;
- reviewing the terms of reference of the Remuneration Committee; and
- reviewing the performance of the Remuneration Committee.

External Advisors

During the year, the committee continued to engage the services of FIT Remuneration Consultants LLP, which were appointed in the latter stages of 2017, following a selection process undertaken by the Chairman of the Remuneration Committee. FIT Remuneration Consultants 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. Fees totalling £31,800 have been paid for their services during the year for the provision of advice to the Committee on various aspect of remuneration within the FTSE SmallCap sector. The committee has reviewed 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: Provided for Information

As Approved at the 2018 Annual General Meeting and not Subject to Further Approval at the Annual General Meeting in 2019

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 three years from the date of the 2018 Annual General Meeting.

Executive Directors' remuneration

The table sets out a summary of each element of the Executive Directors' remuneration, how it operates, the maximum opportunity available, and applicable performance metrics:

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

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

Directors' Remuneration Report continued

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
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
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

Element: Share Retention Policy	
Purpose and link to strategy	Aligns Directors' interests with shareholders
Operation	<p>Holding requirements:</p> <p>CEO – 200% of basic salary</p> <p>CFO – 150% of basic salary</p> <p>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</p>
Maximum Opportunity	Not applicable
Performance Metrics	Not applicable
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	<p>Salary will be set to reflect skills and experience of incoming Director and market rate for the role to be undertaken</p> <p>Existing benefits and incentives of the Group to be used with participation on the same basis as existing Directors</p> <p>Payment of relocation expenses where relevant; each element will be detailed in the relevant remuneration report</p> <p>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</p> <p>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</p>
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
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

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.

Annual Statement of Remuneration Committee

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 Annual General Meeting 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

Illustration of remuneration policy

The graph to the right provides estimates of the potential future reward for each of the Executive Directors based on their current roles, the remuneration policy outlined on pages 65 to 69 and base salaries as at 1 October 2018.

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%).

Maximum plus

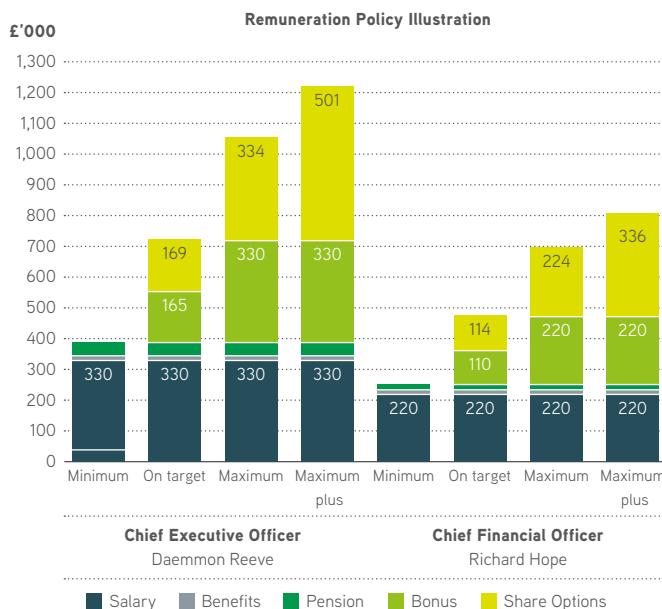
- as maximum plus effect of 50% share price growth compared to share price at date of grant.

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 was determined by the Executive Directors in 2018. The bonuses of all senior managers in the Group are approved by the committee. With effect from 2019, the salaries and benefits of all senior managers will be determined by the Remuneration Committee, in accordance with the 2018 Corporate Governance Code.

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 2018:

	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 12 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.

Annual Statement of Remuneration Committee continued

IMPLEMENTATION REPORT

Implementation of Policy in 2019

Element of Remuneration policy	Implementation of policy for 2019
Base Salaries	<ul style="list-style-type: none"> Daemmon Reeve – £330,000 (FY2018: £305,000) Richard Hope – £220,000 (FY2018: £202,000)
Benefits	<ul style="list-style-type: none"> Unchanged from FY2018. Private Healthcare (including Family Cover for Daemmon Reeve); Life Assurance; Permanent Health Insurance; Car Allowance; All-employee share schemes
Pensions	<p>Unchanged from FY2018.</p> <ul style="list-style-type: none"> Daemmon Reeve – 15% of salary (as a former member of the Defined Benefit plan) Richard Hope – 9% of salary <p>Contributions are paid as cash and reduced for the impact of Employers' NICs, giving actual contribution rates of 13.2% and 7.9% of salary respectively.</p>
Annual Bonus	<ul style="list-style-type: none"> Operation is unchanged from FY2018 Maximum is 100% of base salary for Executive Directors FY2019 targets are based on adjusted Group profit before tax and are calibrated by reference to the performance of the Group in FY2018 Bonuses are paid in cash after finalisation of the Group's results for FY2019 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.
LTIP	<p>Operation is unchanged from FY2018</p> <ul style="list-style-type: none"> Annual LTIP award to Executive Directors over shares worth 100% of base salary (calculated using share prices at the time of award) FY2019 awards will be subject to performance conditions measured over three financial years to FY2021 The performance condition will again be based on growth in adjusted basic Earnings per Share measured from FY2018 as the base point and with a performance range as follows: <ul style="list-style-type: none"> Threshold (25% vests) – average 2.5% p.a. growth Maximum (100% vests) – average 10% p.a. growth After performance vesting at 3 years, LTIP awards are subject to a further 2 year holding period <p>Changes to the Treatt 2019 LTIP rules increase the Remuneration Committee's ability to adjust LTIP awards under enhanced malus and clawback provisions.</p>
Share Retention Policy	<ul style="list-style-type: none"> Daemmon Reeve – 200% of basic salary Richard Hope – 150% of basic salary Both Executive Directors have shareholdings with values above these levels.
Clawback	<ul style="list-style-type: none"> Applies to all performance-related elements of Executive Directors' remuneration
Chairman and Non-executive Directors' fees	<p>As set out in the committee's annual statement, the Chairman's fees have been reviewed in light of the increased complexity of the role and the sustained performance of the business.</p> <p>The fee for Tim Jones, Chairman is £100,000 in FY2019 (FY2018: £80,000)</p> <p>The base fee for Non-executive Directors for FY2019 has been increased by 3% in line with the general rate of base pay increase for staff. Accordingly, fee levels for Non-executive Directors in FY2019 are as follows:</p> <ul style="list-style-type: none"> Base fee – £41,200 (FY2018: £40,000) Audit Committee Chair fee – £7,725 (FY2018: £7,500) Remuneration Committee Chair fee – £5,150 (FY2018: £5,000) Senior Independent Director – £2,575 (FY2018: £2,500)

The following section of this report provides details of the implementation of the policy for the year ended 30 September 2018.

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	
	2018 £'000	2017 £'000	2018 £'000	2017 £'000
Salary	305	282	202	185
Taxable benefits ¹	16	1	15	–
Annual bonus ²	282	282	187	185
Share options vesting in the financial year ³	1,114	–	650	8
Pension ⁴	40	38	16	15
	1,757	603	1,070	393

1 Taxable benefits provided to Executive Directors relate to private medical insurance and car allowances.

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:

	2018	2017
Daemmon Reeve	92.5%	100%
Richard Hope	92.5%	100%

Bonus payments range from 5% of salary at threshold level, being 96% of prior year's adjusted Group profit before tax rising incrementally to a maximum of 100% of salary where adjusted Group profit before tax is 110% or more of prior year. 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	
	2018	2017	2018	2017
Daemmon Reeve	52%	50%	48%	50%
Richard Hope	52%	50%	48%	50%

3 Options which vested in 2018 included those granted in 2014 and in the case of Daemmon Reeve also in 2012, during which times share price growth has been 246% and 511% respectively. The maximum average adjusted EPS growth required was 10% per annum, and the actual EPS growth achieved was 23.3% and 22.1% per annum respectively. Details of share options which vested in the year are shown on page 74.

4 Pension contributions relate to pay in lieu of pension after deduction of employers' NI.

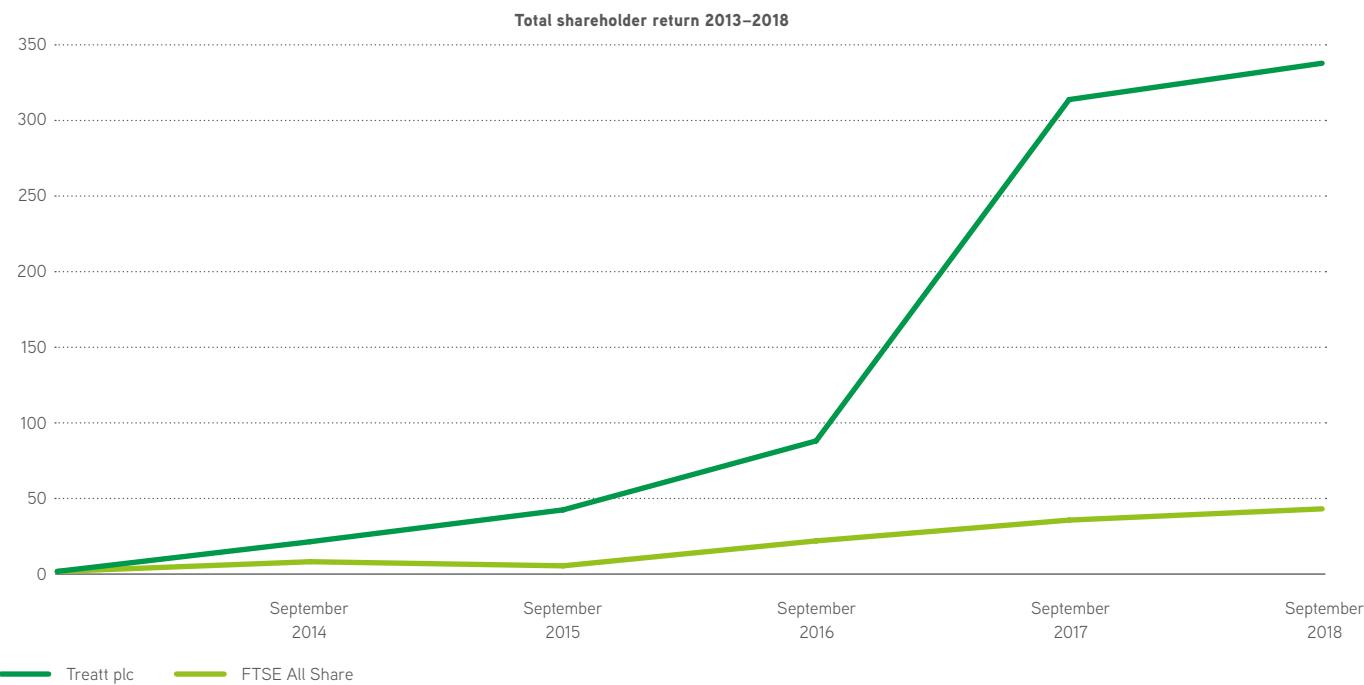
Non-executive Directors:

	Fees	
	2018 £'000	2017 £'000
Tim Jones	80	62
Anita Haines	40	33
Jeff Iliffe	48	39
Richard Illek	40	33
David Johnston	48	37
	256	204

Annual Statement of Remuneration Committee continued

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:

	2018	2017	2016	2015	2014
Total remuneration (£'000)	1,757	603	580	470	436
Annual bonus as % of maximum	92.5%	100%	88%	92%	95%
Share options vesting as % of maximum	100%	N/A ²	N/A ²	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 2018 of the Director undertaking the role of CEO, compared to employees as a whole was as follows:

	Salaries	Bonus
CEO	8.2%	0%
Employees ¹	3.9%	See below ²

1 The employees used for comparison are those UK and US employees who, for the salary comparison, were employed for the whole of the 2018 financial year.

2 Employee bonuses are based on a combination of Group performance and the performance of the entity they are employed by. US all staff bonuses were 11.5% of salary (2017: 12%) and UK all staff bonuses were 3.5% of salary (2017: 12%).

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:

	2018 £'000	2017 £'000	Movement
Total remuneration ¹	13,497	11,131	+3%
Dividends ²	2,876	3,025	-5%
Current tax ³	2,999	3,444	-13%

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 12. The prior year included three dividends as the one-off result of bringing forward the dividend timetable on a permanent basis.

3 Current tax charge in respect of the financial year as disclosed in note 10. The reduction in current tax resulted from a significant reduction in the rate of US corporation tax.

Directors' Interests (audited)

The Directors who held office at 30 September 2018 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	
	2018	2017	2018	2017	2018	2017
Executive Directors						
Daemmon Reeve	302,910	163,080	389,446	565,346	13,043	13,043
Richard Hope	291,615	211,226	223,760	307,470	7,377	14,719
Non-executive Directors						
Tim Jones	120,751	120,751	–	–	–	–
Anita Haines	50,680	50,680	–	–	–	–
Richard Illek	64,000	55,000	–	–	–	–

Between 1 October 2018 and 22 November 2018, 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 2018 as a percentage of their base salary:

	Value of shares held outright or vested		Base salary ¹		Value of Interest as % of base salary ²		
	2018 £'000	2017 £'000	2018 £'000	2017 £'000	2018 %	2017 %	Target % of base salary
	1,463	752	305	282	480%	267%	200%
Daemmon Reeve	1,409	974	202	185	697%	526%	150%
Richard Hope							

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

2 Based upon a share price of £4.83 as at 30 September 2018.

Annual Statement of Remuneration Committee continued

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 ³	Min Performance Award	Performance End date
Daemmon Reeve	LTIP 2017 ¹	Executive	18 Dec 17	£4.55	305	25%	30/9/20
Richard Hope	SAYE 2018 ²	All-staff	9 Jul 18	£4.45	7	N/A	N/A
	LTIP 2017 ¹	Executive	18 Dec 17	£4.55	202	25%	30/9/20

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.

3 Face value is calculated based upon share price at date of grant as shown above.

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: 25% 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 2017	Granted During the Year	Exercised During the Year	Expired During the Year	At 30 Sep 2018
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
	Dec 2020 – Dec 2027	Nil	–	67,477	–	–	67,477
			578,389	67,477	(243,377)	–	402,489
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
	Sep 2021 – Feb 2022	373.0p	–	1,592	–	–	1,592
	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
	Dec 2020 – Dec 2027	Nil	–	44,690	–	–	44,690
			322,189	46,282	(137,334)	–	231,137

The aggregate amount of gains made by the Directors on the exercise of share options in the year was £1,764,000 (2017: £8,000).

There have been no further changes in the interests of the Directors to subscribe for or acquire shares between 1 October 2018 and 22 November 2018, the latest date practicable to obtain the information prior to publication of this document.

The market price of the shares at 30 September 2018 was £4.83 and the range during the financial year was £3.95 to £5.08. 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, HM Revenue & Customs approved, defined benefit occupational pension scheme.

The pension entitlement is as follows:

	Normal Retirement Date	Accrued Total Pension at	
		2018 £	2017 £
Daemmon Reeve	24 Sep 2036	13,740	13,339

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 30.

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

	2018 £'000	2017 £'000
Daemmon Reeve	40	38
Richard Hope	16	15

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 26 January 2018, the votes cast in respect of the resolution to approve the Directors' Remuneration Report and the Directors' Remuneration Policy, were as follows:

Directors' Remuneration Report	For 99.95%	Against 0.05%	Votes withheld 30,820
Directors' Remuneration Policy	For 99.83%	Against 0.17%	Votes withheld 149,909

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 26 November 2018.

Anita Steer

Secretary

Directors' Report

Financial statements

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

Results and dividends

The results of the Group for the year are set out on page 85. Profit before tax for the year excluding exceptional items and discontinued operations was £12,642,000 (2017: £11,696,000).

The Directors recommend a final dividend of 3.50p (2017: 3.35p) per ordinary share. This, when taken with the interim dividend of 1.60p (2017: 1.45p) per share paid on 16 August 2018, gives a total dividend of 5.10p (2017: 4.80p) per share for the year ended 30 September 2018.

Corporate governance

The Corporate Governance Statement on pages 52 to 55 forms part of this Directors' Report.

Directors

The Directors of the Parent Company are shown on pages 50 and 51.

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 54.

Details of the Executive Directors' contracts and notice periods are given in the Directors' Remuneration Report on page 69. The Executive Directors' contracts are terminable by the Group giving the required notice period of one year.

In accordance with the 2018 UK Corporate Governance Code and best practice all Directors will submit themselves for re-election at the forthcoming Annual General Meeting, with the exception of Anita Haines who is retiring as a Non-Executive Director at the conclusion of the Annual General Meeting. More information is provided in the Notice of Meeting. 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 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 73.

Substantial shareholders

In accordance with Rule 5 of the Disclosure and Transparency Rules of the Financial Conduct Authority, the Parent Company has been notified of the following holdings of 3% or more of the voting rights at 21 November 2018 (the latest practicable reporting date prior to publication of this document).

	Number	Issued %	Voting %
Blackrock Inc	6,456,889	10.86%	11.06%
Discretionary Unit Fund Managers	4,250,000	7.15%	7.28%
Canaccord Genuity Group Inc	3,228,979	5.43%	5.53%
Miton Group plc	2,765,718	4.65%	4.74%
Hargreaves Lansdown Plc	2,288,923	3.85%	3.92%
Liontrust Asset Management	1,976,004	3.32%	3.38%
BMO Global Asset Management	1,872,833	3.15%	3.21%
James Sharp & Co	1,801,351	3.03%	3.08%

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. Details of other directorships held by members of the Board can be found in the Director profiles on pages 50 and 51.

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.

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 6 to 47. 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 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 those responsible for environmental, insurance, legal and health and safety compliance as appropriate. 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 as part of the external audit.

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. In respect of the two major capital investment projects - the US expansion and the UK relocation - please see the Financial Review on page 36.

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.

Our top five investor questions

- Q** **Can you update us on the progress of the new site following the fund raise last year?**
- A** **The fund raise has provided us with the flexibility to invest in new premises in the UK and also expand capacity in the US. The US expansion is close to completion and in the UK we are nearing the conclusion of finalising plans and designs and we expect to deliver this project on budget and to become operational at the new site in the mid-2020.**
- Q** **What are the key drivers of growth for Treatt and can you continue to grow at historic rates?**
- A** **We have, for the past two years, had a very clear focus on citrus, tea and sugar reduction. Each of these markets are multi billion pound markets, fast growing and driven by innovation.**
- Q** **Can we expect more restructuring after the sale of Earthoil? Have you considered acquisitions?**
- A** **Earthoil is a great business which we grew, invested in and ultimately sold for a good price. The Board constantly reviews ways in which we can enhance our profitability – at the moment our focus is on infrastructure and human talent as we see these as accelerators to our growth.**
- Q** **Can you continue to drive margin growth after several years of improvement?**
- A** **Key drivers to this improvement will be the benefits of the new UK and US operations, a continued focus on innovation and higher value add products and a continued investment in our people and processes.**
- Q** **Will Brexit have any impact on your business?**
- A** **We believe Treatt's global footprint gives it flexibility to face any challenges that may arise.**

Details of the principal risks associated with the Group's activities are given in the Strategic Report on pages 26 to 31.

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 33 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 Strategic Report on pages 6 to 47. Information on the principal risks and uncertainties and how they are managed can be found in the Strategic Report on pages 26 to 31.

In accordance with 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 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 26 to 31. 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 26 to 31.

Directors' Report continued

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 positive cash balances following the equity fund raising in November 2017 and the sale of Earthoil Plantations Limited;
- 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 36. Given the levels of debt finance available to the Group to fund these investments and the raising of equity finance in November 2017, 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 ongoing 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 over-arching 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"), 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. As safety and our environment are of paramount importance, members of the Treatt team have established a COMAH forum to enable collaboration between COMAH sites where experience and ideas are shared.

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 required.

Greenhouse gas emissions

The Group's disclosures on greenhouse gas emissions have been included within the Working Responsibly section on page 43.

Employees

The Group's disclosures on employees have been included within the Working Responsibly section on page 44.

Structure of share capital

The Parent Company's share capital comprises 59,470,670 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 26 of the financial statements. During the current period the Parent Company issued 5,265,500 shares under a placing (2017: Nil), 230,000 shares to Treatt SIP Trustees Limited (2017: 150,000) and 1,070,000 to the Employee Benefit Trust (2017: 100,000).

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 Conduct 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 2019, 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 2019 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 Directors' 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 (2017: Nil) were purchased by the EBT during the year ended 30 September 2018. During the year 1,070,000 (2017: 100,000) 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 230,000 (2017: 150,000) 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 will be held at Treatt plc, Northern Way, Bury St Edmunds, Suffolk, IP32 6NL on 25 January 2019. The Notice of Meeting and explanatory notes are given on pages 130 to 138. 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 Treatt plc and its subsidiaries, and to authorise the Board to fix their remuneration. The remuneration of the auditors for the year ended 30 September 2018 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:

- a. select suitable accounting policies and then apply them consistently;
- b. make judgements and estimates that are reasonable and prudent;
- c. state whether they have been prepared in accordance with IFRSs adopted by the EU;
- d. 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:

- a. 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;
- b. 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; and
- c. consider the annual report and accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy.

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 26 November 2018.

Signed on behalf of the Board.

Anita Steer

Secretary



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Independent Auditor's report to the members of Treatt plc

Opinion

We have audited the financial statements of Treatt plc (the 'Parent Company') and its subsidiaries (the 'Group') for the year ended 30 September 2018 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 and, as regards the Parent Company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

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 2018 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 provisions of 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 and Parent Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard 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 26 to 31 that describe the principal risks and explain how they are being managed or mitigated;
- the Directors' confirmation set out on page 27 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 78 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 77 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 judgment, 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 against obsolete and slow moving stock to write down to the net recoverable amount as per the policy on page 95 and charge as note 5 – 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 relevant to the estimation 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 to confirm the effectiveness of the estimation process followed by management.

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 £685,000, 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, Treat Development Company Limited and the two key trading subsidiaries, one in the UK and one in the US. The UK entities are subject to local statutory audits 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 100% of revenue from continuing operations, 100% of profit before tax from continuing operations, and 99% of total assets.

In addition we audited the gain on disposal of subsidiary included within discontinued operations (note 11). The results for the year from discontinued operations were subject to desktop reviews.

Other information

The other information comprises the information included in the annual report set out on pages 1 to 81, 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 79 – 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 58 to 60 – 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 52 – the parts of the Directors' statement required under the Listing Rules relating to the Company'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 financial statements are prepared is consistent with the financial statements; and
- the strategic report and the Directors' report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

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

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

- adequate accounting records have not been kept 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 79, 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.

Independent Auditor's report to the members of Treatt plc continued

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: <http://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 31 years, covering the years ended 30 September 1988 to 30 September 2018.

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.

Use of our report

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

Neil Stephenson

Senior Statutory Auditor

For and on behalf of RSM UK Audit LLP,
 Statutory Auditor
 Chartered Accountants
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 Bury St Edmunds
 IP32 7FA

26 November 2018

Group Income Statement

for the year ended 30 September 2018

	Notes	2018 £'000	2017 £'000
CONTINUING OPERATIONS			
Revenue	4	112,163	101,250
Cost of sales		(84,407)	(75,985)
Gross profit		27,756	25,265
Administrative expenses		(13,812)	(12,718)
Operating profit¹	5	13,944	12,547
Other losses	7	(734)	–
Net finance costs	8	(568)	(851)
Profit before taxation and exceptional items		12,642	11,696
Exceptional items	9	(1,105)	–
Profit before taxation		11,537	11,696
Taxation	10	(2,284)	(3,129)
Profit for the year from continuing operations		9,253	8,567
DISCONTINUED OPERATIONS			
Profit for the year from discontinued operations	11	2,976	978
Profit for the year attributable to owners of the Parent Company		12,229	9,545
Earnings per share			
From continuing and discontinued operations:			
Basic	13	21.55p	18.29p
Diluted	13	20.99p	17.72p
Adjusted basic ^{2,3}	13	19.07p	18.29p
Adjusted diluted ^{2,3}	13	18.58p	17.72p
From continuing operations:			
Basic	13	16.30p	16.41p
Diluted	13	15.88p	15.90p
Adjusted basic ²	13	18.02p	16.41p
Adjusted diluted ²	13	17.56p	15.90p

1 Operating profit is calculated as profit before other losses, 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 9.

3 Excludes the 2018 gain on disposal of subsidiaries (2017: £nil).

Notes 1 – 34 form part of these financial statements.

Group Statement of Comprehensive Income

for the year ended 30 September 2018

	Notes	2018 £'000	2017 £'000
Profit for the year attributable to owners of the Parent Company		12,229	9,545
Items that may be reclassified subsequently to profit or loss:			
Currency translation differences on foreign currency net investments		912	(1,107)
Current tax on foreign currency translation differences	10	(24)	59
Fair value movement on cash flow hedges	25	(70)	659
Deferred tax on fair value movement	10	(27)	(112)
		791	(501)
Items that will not be reclassified subsequently to profit or loss:			
Actuarial gain on defined benefit pension scheme	30	2,505	1,468
Deferred tax on actuarial gain or loss	10	(426)	(250)
		2,079	1,218
Other comprehensive income for the year		2,870	717
Total comprehensive income for the year attributable to owners of the Parent Company		15,099	10,262

Notes 1 – 34 form part of these financial statements.

Group and Parent Company Statements of Changes in Equity

for the year ended 30 September 2018

Group	Notes	Share capital £'000	Share premium account £'000	Own shares in share trusts £'000	Hedging reserve £'000	Foreign exchange reserve £'000	Retained earnings £'000	Total equity £'000
1 October 2016		1,053	2,757	(332)	(627)	3,675	30,661	37,187
<i>Net profit for the year</i>		–	–	–	–	–	9,545	9,545
<i>Other comprehensive income:</i>								
Exchange differences		–	–	–	–	(1,107)	–	(1,107)
Fair value movement on cash flow hedges	25	–	–	–	659	–	–	659
Actuarial gain on defined benefit pension scheme	30	–	–	–	–	–	1,468	1,468
Taxation relating to items above	10	–	–	–	(112)	59	(250)	(303)
Total comprehensive income		–	–	–	547	(1,048)	10,763	10,262
<i>Transactions with owners:</i>								
Dividends	12	–	–	–	–	–	(3,025)	(3,025)
Share-based payments	29	–	–	–	–	–	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	26	5	–	(5)	–	–	–	–
Taxation relating to items recognised directly in equity	10	–	–	–	–	–	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
<i>Net profit for the year</i>		–	–	–	–	–	12,229	12,229
Other comprehensive income:								
Exchange differences		–	–	–	–	912	–	912
Fair value movement on cash flow hedges	25	–	–	–	(70)	–	–	(70)
Actuarial gain on defined benefit pension scheme	30	–	–	–	–	–	2,505	2,505
Transfer between reserves		–	–	–	227	–	(227)	–
Taxation relating to items above	10	–	–	–	(27)	(24)	(426)	(477)
Total comprehensive income		–	–	–	130	888	14,081	15,099
<i>Transactions with owners:</i>								
Dividends	12	–	–	–	–	–	(2,876)	(2,876)
Share-based payments	29	–	–	–	–	–	1,049	1,049
Movement in own shares in share trusts		–	–	167	–	–	–	167
Gain on release of shares in share trusts		–	–	–	–	–	419	419
Issue of share capital	26	131	20,727	(26)	–	–	–	20,832
Taxation relating to items recognised directly in equity	10	–	–	–	–	–	457	457
Total transactions with owners		131	20,727	141	–	–	(951)	20,048
30 September 2018		1,189	23,484	(34)	50	3,515	53,421	81,625

Notes 1 – 34 form part of these financial statements.

Group and Parent Company Statements of Changes in Equity

for the year ended 30 September 2018

Parent Company	Notes	Share capital £'000	Share premium account £'000	Own shares in share trusts £'000	Retained earnings £'000	Total equity £'000
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
<i>Transactions with owners:</i>						
Dividends	12	–	–	–	(3,025)	(3,025)
Movement in own shares in share trusts		–	–	162	–	162
Capital contribution to subsidiary undertakings	29	–	–	–	951	951
Gain on release of shares in share trusts		–	–	–	193	193
Issue of share capital	26	5	–	(5)	–	–
Total transactions with owners		5	–	157	(1,881)	(1,719)
30 September 2017		1,058	2,757	(175)	7,191	10,831
Net profit for the year		–	–	–	7,945	7,945
Total comprehensive income		–	–	–	7,945	7,945
<i>Transactions with owners:</i>						
Dividends	12	–	–	–	(2,876)	(2,876)
Movement in own shares in share trusts		–	–	167	–	167
Capital contribution to subsidiary undertakings	29	–	–	–	1,049	1,049
Gain on release of shares in share trusts		–	–	–	419	419
Issue of share capital	26	131	20,727	(26)	–	20,832
Total transactions with owners		131	20,727	141	(1,408)	19,591
30 September 2018		1,189	23,484	(34)	13,728	38,367

Notes 1 – 34 form part of these financial statements.

Group and Parent Company Balance Sheets

as at 30 September 2018

Registered Number: 01568937

	Notes	Group		Parent Company		
		2018 £'000	2017 £'000	2018 £'000	2017 £'000	
ASSETS						
Non-current assets						
Goodwill	14	—	2,727	—	—	
Other intangible assets	15	752	604	—	—	
Property, plant and equipment	16	20,038	14,821	—	—	
Investment in subsidiaries	17	—	—	7,010	8,205	
Deferred tax assets	18	1,073	1,380	—	—	
		21,863	19,532	7,010	8,205	
Current assets						
Inventories	19	39,642	42,878	—	—	
Trade and other receivables	20	28,829	19,973	2,507	523	
Current tax assets		29	148	—	—	
Derivative financial instruments	25	—	483	—	—	
Cash and bank balances	21	32,304	4,748	31,647	2,590	
Assets classified as held for sale	11	1,598	—	—	—	
		102,402	68,230	34,154	3,113	
Total assets		124,265	87,762	41,164	11,318	
LIABILITIES						
Current liabilities						
Borrowings	22	(19,244)	(7,680)	—	—	
Provisions	23	(58)	(57)	—	—	
Trade and other payables	24	(15,298)	(17,816)	(2,797)	(487)	
Current tax liabilities		(760)	(1,450)	—	—	
Derivative financial instruments	25	(401)	—	—	—	
Liabilities classified as held for sale	11	(20)	—	—	—	
		(35,781)	(27,003)	(2,797)	(487)	
Net current assets		66,621	41,227	31,357	2,626	
Non-current liabilities						
Borrowings	22	(3,001)	(7,293)	—	—	
Post-employment benefits	30	(3,457)	(5,821)	—	—	
Deferred tax liabilities	18	(401)	(764)	—	—	
Derivative financial instruments	25	—	(403)	—	—	
		(6,859)	(14,281)	—	—	
Total liabilities		(42,640)	(41,284)	(2,797)	(487)	
Net assets		81,625	46,478	38,367	10,831	
EQUITY						
Share capital	26	1,189	1,058	1,189	1,058	
Share premium account	27	23,484	2,757	23,484	2,757	
Own shares in share trusts		(34)	(175)	(34)	(175)	
Hedging reserve		50	(80)	—	—	
Foreign exchange reserve		3,515	2,627	—	—	
Retained earnings		53,421	40,291	13,728	7,191	
Total equity attributable to owners of the Parent Company		81,625	46,478	38,367	10,831	

Notes 1 – 34 form part of these financial statements.

The Parent Company reported a profit for the year of £7,945,000 (2017: £3,444,000).

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

Tim Jones
Chairman

Richard Hope
Chief Financial Officer

Group and Parent Company Statements of Cash Flows

for the year ended 30 September 2018

	Notes	Group 2018 £'000	2017 £'000	Parent Company 2018 £'000	2017 £'000
Cash flow from operating activities					
Profit before taxation including discontinued activities		14,555	12,892	7,901	3,392
Adjusted for:					
Depreciation of property, plant and equipment	16	1,519	1,399	–	–
Amortisation of intangible assets	15	124	137	–	–
Loss on disposal of property, plant and equipment		–	7	–	–
Profit on disposal of other intangible assets		(2)	–	–	–
(Profit)/loss on disposal of subsidiaries	28	(2,382)	–	(7,229)	481
Net finance costs	8	610	913	(27)	(2)
Share-based payments	29	1,040	966	–	–
Decrease/(increase) in fair value of derivatives		638	(185)	–	–
Increase/(decrease) in post-employment benefit obligations		141	(112)	–	–
Operating cash flow before movements in working capital		16,243	16,017	645	3,871
Movements in working capital:					
Increase in inventories		(1,174)	(13,607)	–	–
Increase in receivables		(9,906)	(2,454)	(951)	(509)
(Decrease)/increase in payables		(1,582)	4,727	2,309	668
Cash generated from operations		3,581	4,683	2,003	4,030
Taxation (paid)/received		(2,978)	(2,822)	43	53
Net cash from operating activities		603	1,861	2,046	4,083
Cash flow from investing activities					
Disposal of/(investment in) subsidiaries	28	8,746	(900)	8,441	(900)
Proceeds on disposal of property, plant and equipment		–	13	–	–
Purchase of property, plant and equipment	16	(6,190)	(5,111)	–	–
Purchase of intangible assets	15	(389)	(105)	–	–
(Purchase)/sale of redeemable loan notes	33	–	(675)	–	675
Interest received	8	36	12	30	13
		2,203	(6,766)	8,471	(212)
Cash flow from financing activities					
(Repayment)/increase in bank loans		(7,594)	2,284	–	–
Settlement of financial derivatives	33	(227)	–	–	–
Interest paid	8	(646)	(925)	(3)	(10)
Dividends paid	12	(2,876)	(3,025)	(2,876)	(3,025)
Proceeds on issue of shares	26,27	20,833	–	20,833	–
Net sale of own shares by share trusts		586	355	586	355
		10,076	(1,311)	18,540	(2,680)
Net increase/(decrease) in cash and cash equivalents		12,882	(6,216)	29,057	1,191
Effect of foreign exchange rates		(102)	(85)	–	–
Movement in cash and cash equivalents in the year		12,780	(6,301)	29,057	1,191
Cash and cash equivalents at beginning of year		280	6,581	2,590	1,399
Cash and cash equivalents at end of year		13,060	280	31,647	2,590
Cash and cash equivalents comprise:					
Cash and bank balances	21	32,304	4,748	31,647	2,590
Bank borrowings	22	(19,244)	(4,468)	–	–
		13,060	280	31,647	2,590

Notes 1 – 34 form part of these financial statements.

Group Reconciliation of Net Cash Flow to Movement in Net Debt

for the year ended 30 September 2018

	2018 £'000	2017 £'000
Movement in cash and cash equivalents in the year	12,780	(6,301)
Repayment/(increase) in bank loans	7,594	(2,284)
Cash inflow/(outflow) from changes in net debt in the year	20,374	(8,585)
Effect of foreign exchange rates	(90)	14
Movement in net debt in the year	20,284	(8,571)
Net debt at beginning of year	(10,225)	(1,654)
Net cash/(debt) at end of year	10,059	(10,225)

Analysis of movements in net debt during the year are as follows;

	At 1 October 2017 £'000	Cash flow £'000	Exchange and other non-cash movements £'000	At 30 September 2018 £'000
Cash and bank balances	4,748	27,658	(102)	32,304
Bank borrowings	(4,468)	(14,776)	-	(19,244)
Cash and cash equivalents	280	12,882	(102)	13,060
Bank loans and overdrafts	(10,505)	7,594	(90)	(3,001)
Net cash/(debt) at end of year	(10,225)	20,476	(192)	10,059

Notes 1 – 34 form part of these financial statements.

Notes to the financial statements

for the year ended 30 September 2018

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 139.

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 2018.

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 (amendments to IFRS 1 and IAS 28)

Annual improvements 2015–2017

IFRS 2 Share-based payments (amendments)

IFRS 3 Business combinations: Definition of a business (amendments)

IFRS 9* Financial instruments

IFRS 15* Revenue from contracts with customers

IFRS 16* Leases

IFRS 17 Insurance contracts

IAS 19 Employee benefits: Plan amendment, curtailment or settlement (amendments)

IAS 28 Investments in associates and joint ventures (amendments)

IAS 40 Investment property (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 a review of the likely impact, the Directors anticipate that:

- the adoption of IFRS 9 will not have any impact on the financial statements of the Group or Parent Company, other than on disclosure notes, whilst enabling the Group to manage its hedging policies and documentation in a more streamlined manner.
- having carried out a detailed review of the commercial agreements with customers, the Group have concluded that IFRS 15 will not have any impact on the financial statements of the Group or the Parent Company, other than on disclosure notes. This conclusion reflects the fact that these agreements do not constitute firm contracts which cannot be cancelled or amended by the customer without recourse. It therefore remains the case that the Group's existing accounting policy in respect of revenue recognition will continue to be applied on a basis consistent with prior years.
- based on leases in existence at 30 September 2018, the adoption of IFRS 16 will not have an impact on net assets or to the annual profit or loss charge of more than £20,000.

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 pages 77 to 78.

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.

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.

Notes to the financial statements continued

for the year ended 30 September 2018

3. SIGNIFICANT ACCOUNTING POLICIES continued

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.

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" any revisions to cost for acquisitions 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.

Assets held for sale

Non-current assets, or disposal groups comprising assets and liabilities, are classified as held for sale if it is highly probable that they will be recovered primarily through sale rather than through continuing 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.

Notes to the financial statements continued

for the year ended 30 September 2018

3. SIGNIFICANT ACCOUNTING POLICIES continued

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.

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 33, "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 ongoing 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.

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.

Notes to the financial statements continued

for the year ended 30 September 2018

3. SIGNIFICANT ACCOUNTING POLICIES continued

Critical accounting estimates, assumptions and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The 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 30 “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 29 “Share-based Payments”. Changes in these assumptions could lead to changes in the income statement expense in future periods;

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.

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.

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	2018 £'000 Continuing	2018 £'000 Discontinued	2018 £'000 Total	2017 £'000 Continuing	2017 £'000 Discontinued	2017 £'000 Total
United Kingdom	10,997	2,051	13,048	7,693	2,578	10,271
Rest of Europe						
– Germany	6,687	719	7,406	6,458	748	7,206
– Ireland	8,310	–	8,310	7,280	–	7,280
– Other	12,661	1,920	14,581	8,620	2,615	11,235
The Americas						
– USA	40,963	1,030	41,993	40,619	1,952	42,571
– Other	8,407	3	8,410	8,071	93	8,164
Rest of the World						
– China	5,441	1	5,442	5,767	5	5,772
– Other	18,697	409	19,106	16,742	386	17,128
	112,163	6,133	118,296	101,250	8,377	109,627

All Group revenue is in respect of the sale of goods, other than property rental income of £27,000 (2017: £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 (2017: 10.7%).

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

Continuing operations	2018 £'000	2017 £'000
United Kingdom	8,652	11,358
United States	12,138	6,364
Rest of the World	–	430
	20,790	18,152

Notes to the financial statements continued

for the year ended 30 September 2018

5. PROFIT FOR THE YEAR

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

Group	2018 £'000	2018 £'000	2018 £'000	2017 £'000	2017 £'000	2017 £'000
	Continuing	Discontinued	Total	Continuing	Discontinued	Total
Depreciation of property, plant and equipment	1,463	56	1,519	1,343	56	1,399
Amortisation of intangible assets ¹	121	3	124	137	–	137
Loss on disposal of property, plant and equipment	–	–	–	–	7	7
Loss on disposal of other intangible assets	31	–	31	–	–	–
Research and development costs	1,717	–	1,717	1,402	–	1,402
Research and development government grants	(137)	–	(137)	–	–	–
Operating leases						
– plant & machinery	6	1	7	6	1	7
– land & buildings	22	84	106	22	91	113
Net foreign exchange gain ²	(558)	(20)	(578)	(492)	(20)	(512)
Rent (receivable)/payable	(44)	17	(27)	(34)	17	(17)
Cost of inventories recognised as expense ³	73,377	5,285	78,662	64,417	6,236	70,653
Write down/(write back) of inventories recognised as an expense	769	38	807	1,237	41	1,278
Shipping costs	1,755	112	1,867	1,615	184	1,799
IT & telephony costs	628	15	643	666	15	681
Insurance costs	581	66	647	606	86	692
Energy & utility costs	527	38	565	362	27	389

¹ Included in administrative expenses.

² Excludes foreign exchange gains or losses on financial instruments disclosed in note 25.

³ Included in cost of sales.

The analysis of auditor's remuneration is as follows:

Fees payable to the Parent Company's auditors and their associates for the audit of:	2018 £'000	2017 £'000
– the Parent Company and Group accounts	40	45
– the Group's subsidiaries pursuant to legislation	80	86
Total audit fees	120	131
Fees payable to the Parent Company's auditors and their associates for other services to the Group:		
– tax compliance services	–	2
– other assurance services	2	3
Total non-audit fees	2	5

6. EMPLOYEES

Group

Number of employees

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

	2018 Number Continuing	2018 Number Discontinued	2018 Number Total	2017 Number Continuing	2017 Number Discontinued	2017 Number Total
Technical and production	158	63	221	141	61	202
Administration and sales	129	10	139	120	9	129
	287	73	360	261	70	331

During the year, the Directors shown on pages 50 and 51 were employed by the Parent Company.

Employment costs

The following costs were incurred in respect of the above:

	2018 £'000 Continuing	2018 £'000 Discontinued	2018 £'000 Total	2017 £'000 Continuing	2017 £'000 Discontinued	2017 £'000 Total
Wages and salaries	12,242	487	12,729	11,891	484	12,375
Social security costs	1,520	36	1,556	1,486	36	1,522
Pension costs (see note 30)	740	27	767	729	27	756
Share-based payments (see note 29)	1,040	—	1,040	966	—	966
	15,542	550	16,092	15,072	547	15,619

Directors

The information on Directors' emoluments and share options set out on pages 71 to 75 form part of these financial statements.

7. OTHER LOSSES

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

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

8. NET FINANCE COSTS

Group	2018 £'000 Continuing	2018 £'000 Discontinued	2018 £'000 Total	2017 £'000 Continuing	2017 £'000 Discontinued	2017 £'000 Total
Finance costs						
Bank overdraft interest paid	221	42	263	504	51	555
Other bank finance costs	217	—	217	176	—	176
Loan interest paid	—	—	—	5	—	5
Loan note interest paid	—	—	—	1	12	13
Pension finance cost (see note 30)	166	—	166	188	—	188
	604	42	646	874	63	937
Finance revenue						
Loan interest note received	—	—	—	12	—	12
Bank interest received	36	—	36	11	1	12
Net finance costs	568	42	610	851	62	913

Notes to the financial statements continued

for the year ended 30 September 2018

9. EXCEPTIONAL ITEMS

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

Group	2018 £'000	2017 £'000
Accelerated depreciation expense	217	–
UK relocation expenses	888	–
	1,105	–
Less: tax effect of exceptional items	(130)	–
	975	–

The exceptional items all relate to non-recurring items. The accelerated depreciation is in relation to the reduction in the estimated useful lives of UK assets which will not transition to the new UK site. Relocation expenses relate to one-off costs incurred in connection with the relocation of the Group's UK operations which is expected to take place in 2020.

10. TAXATION

Analysis of tax charge in income statement

Group	2018 £'000 Continuing	2018 £'000 Discontinued	2018 £'000 Total	2017 £'000 Continuing	2017 £'000 Discontinued	2017 £'000 Total
Current tax:						
UK corporation tax on profits for the year	676	58	734	1,047	231	1,278
Adjustments to UK tax in respect of previous periods	(33)	–	(33)	(84)	–	(84)
Overseas corporation tax on profits for the year	2,301	–	2,301	2,260	–	2,260
Adjustments to overseas tax in respect of previous periods	(3)	–	(3)	(10)	–	(10)
Total current tax	2,941	58	2,999	3,213	231	3,444
Deferred tax:						
Origination and reversal of temporary differences	(325)	(15)	(340)	(106)	(29)	(135)
Effect of reduced tax rate on opening assets and liabilities	(331)	–	(331)	–	–	–
Adjustments in respect of previous periods	(1)	(1)	(2)	22	16	38
Total deferred tax (see note 18)	(657)	(16)	(673)	(84)	(13)	(97)
Tax on profit on ordinary activities	2,284	42	2,326	3,129	218	3,347

Analysis of tax charge/(credit) in other comprehensive income

	2018 £'000	2017 £'000
Current tax:		
Foreign currency translation differences	24	(59)
Deferred tax:		
Cash flow hedges	27	112
Defined benefit pension scheme	426	250
Total deferred tax	453	362
Total tax expense recognised in other comprehensive income	477	303

Analysis of tax credit in equity

Current tax:		
Share-based payments	(576)	(218)
Deferred tax:		
Share-based payments	119	(530)
Total tax credit recognised in equity	(457)	(748)

Factors affecting tax charge for the year

The tax assessed for the year is different from that calculated at the standard rate of corporation tax in the UK of 19% (2017: 19.5%). The differences are explained below:

	2018 £'000 Continuing	2018 £'000 Discontinued	2018 £'000 Total	2017 £'000 Continuing	2017 £'000 Discontinued	2017 £'000 Total
Profit before tax multiplied by standard rate of UK corporation tax at 19% (2017: 19.5%):	2,192	573	2,765	2,281	233	2,514
Effects of:						
(Income)/expenses not taxable/deductible in determining taxable profit and other items	127	(170)	(43)	93	27	120
Research and development tax credits	(44)	–	(44)	(196)	–	(196)
Difference in tax rates on overseas earnings	377	93	470	1,023	(58)	965
Adjustments to tax charge in respect of prior years	(37)	(1)	(38)	(72)	16	(56)
Effect of reduced rate on opening deferred tax	(331)		(331)	–	–	–
Gain on disposal of subsidiary not taxable	–	(453)	(453)	–	–	–
Total current tax	2,284	42	2,326	3,129	218	3,347

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% (2017: 19.5%). The adjustments in respect of prior years relate to the finalisation of previous year's tax computations.

Notes to the financial statements continued

for the year ended 30 September 2018

11. DISCONTINUED OPERATIONS

On 8 May 2018 the Group entered into a conditional agreement to dispose of Earthoil Plantations Limited which supplies ingredient solutions to the personal care industry. The disposal was effected as it was no longer core to Group operations and in order to generate cash flow for the expansion of the Group's other businesses. The disposal was completed on 31 May 2018, on which date control of Earthoil Plantations Limited passed to the acquirer.

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

	2018 £'000	2017 £'000
Revenue	6,133	8,377
Cost of sales	(5,164)	(6,834)
Gross profit	969	1,543
Administrative expenses	(291)	(285)
Operating profit	678	1,258
Net finance costs	(42)	(62)
Profit before taxation and exceptional items	636	1,196
Gain on disposal of subsidiary	2,382	–
Profit before taxation	3,018	1,196
Taxation	(42)	(218)
Profit for the period attributable to owners of the Parent Company	2,976	978

Earnings per share from discontinued operations: Basic 1.05p (2017: 1.88p); Diluted 1.02p (2017: 1.82p).

During the year Earthoil Group contributed £0.7m (2017: £0.3m) to the Group's net operating cashflow, paid £0.2m (2017: £1.4m) in respect of investing activities and received £2.6m (2017: £0.4m paid) in respect of financing activities.

A gain of £2.4m arose on the disposal of Earthoil Plantations Limited, being the difference between the proceeds of disposal and the carrying amount of the subsidiary's net assets and attributable goodwill.

Included within the above results are operations which are expected to be sold, and have been classified as a disposal group held for sale and presented separately within the balance sheet.

The major classes of assets and liabilities comprising the operations classified as held for sale are as follows:

	2018 £'000
Property, plant and equipment	425
Inventories	610
Trade and other receivables	523
Deferred tax	35
Current tax	5
Total assets classified as held for sale	1,598
Trade and other payables	20
Total liabilities classified as held for sale	20
Net assets of disposal group	1,578

No gains or losses arose on the remeasurement of the assets of the disposal group.

12. DIVIDENDS

Equity dividends on ordinary shares:

Parent Company and Group	Dividend per share for years ended 30 September			2018 £'000	2017 £'000
	2018 Pence	2017 Pence	2016 Pence		
Interim dividend	1.60p ²	1.45p ¹	1.35p ¹	936	1,461
Final dividend	3.50p ³	3.35p ²	3.00p ¹	1,940	1,564
	5.10p	4.80p	4.35p	2,876	3,025

1 Accounted for in the year ended 30 September 2017.

2 Accounted for in the year ended 30 September 2018.

3 The proposed final dividend for the year ended 30 September 2018 of 3.50 pence will be voted on at the Annual General Meeting on 25 January 2019 and will therefore be accounted for in the financial statements for the year ending 30 September 2019.

13. 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.

	2018	2017
Profit after taxation attributable to owners of the Parent Company (£'000)	12,229	9,545
Less: Profit from discontinued operations (£'000)	(2,976)	(978)
Profit from continuing operations attributable to owners of the Parent Company (£'000)	9,253	8,567
Weighted average number of ordinary shares in issue (No: '000)	56,758	52,198
Basic earnings per share – continuing and discontinued (pence)	21.55p	18.29p
Basic earnings per share – continuing (pence)	16.30p	16.41p

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:

	2018 No ('000)	2017 No ('000)
Weighted average number of shares	57,423	52,780
Weighted average number of shares held in the EBT and SIP	(665)	(582)
Weighted average number of shares used for calculating basic EPS	56,758	52,198
Executive share option schemes	1,201	1,229
All-employee share options	301	445
Weighted average number of shares used for calculating diluted EPS	58,260	53,872
Diluted earnings per share – continuing and discontinued (pence)	20.99p	17.72p
Diluted earnings per share – continuing (pence)	15.88p	15.90p

Notes to the financial statements continued

for the year ended 30 September 2018

13. EARNINGS PER SHARE continued

Adjusted earnings per share

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

	2018 £'000	2017 £'000
Profit after taxation attributable to owners of the Parent Company	12,229	9,545
Adjusted for:		
Exceptional items (see note 9)	1,105	–
Taxation thereon	(130)	–
Less gain on disposal of subsidiary	(2,382)	–
Earnings for calculating adjusted earnings per share:		
From continuing and discontinued operations	10,822	9,545
Less: profit from discontinued operations before gain on disposal of subsidiaries	(594)	(978)
Adjusted earnings from continuing operations	10,228	8,567
Adjusted basic earnings per share (pence)		
Continuing and discontinued operations	19.07p	18.29p
Continuing operations	18.02p	16.41p
Adjusted diluted earnings per share (pence)		
Continuing and discontinued operations	18.58p	17.72p
Continuing operations	17.56p	15.90p

14. GOODWILL

Group	£'000
Cost	
1 October 2016 and 30 September 2017	5,159
Disposal of subsidiaries	(5,159)
30 September 2018	–
Accumulated impairment losses	
1 October 2016 and 30 September 2017	2,432
Disposal of subsidiaries	(2,432)
30 September 2018	–
Carrying amount	
30 September 2018	–
30 September 2017	2,727

The goodwill in the prior year related to Earthoil. During the year Earthoil Plantations Limited, Earthoil's main operating company, was sold details relating to which can be found in note 28.

15. OTHER INTANGIBLE ASSETS

Group	Lease premium £'000	Software licences £'000	Total £'000
Cost			
1 October 2016	343	764	1,107
Exchange adjustment	–	(3)	(3)
Additions	–	105	105
Disposals	–	(121)	(121)
30 September 2017	343	745	1,088
Exchange adjustment	–	3	3
Additions	–	422	422
Disposals	–	(162)	(162)
Disposal of subsidiaries (see note 28)	–	(123)	(123)
30 September 2018	343	885	1,228
Amortisation			
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
Exchange adjustment	–	2	2
Charge for year	4	120	124
Disposals	–	(131)	(131)
Disposal of subsidiaries (see note 28)	–	(3)	(3)
30 September 2018	33	443	476
Net book value			
30 September 2018	310	442	752
30 September 2017	314	290	604

Intangible assets with a net book value of £18,000 (2017: £32,000) have been pledged as security in relation to all US borrowings as detailed in note 22.

Notes to the financial statements continued

for the year ended 30 September 2018

16. PROPERTY, PLANT AND EQUIPMENT

Group	Land & buildings £'000	Plant & machinery £'000	Total £'000
Cost			
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
Exchange adjustment	304	218	522
Additions	6,275	509	6,784
Disposals	(68)	(720)	(788)
Disposal of subsidiaries (see note 28)	–	(4)	(4)
Transfer to assets held for sale (see note 11)	(66)	(586)	(652)
30 September 2018	17,038	11,366	28,404
Depreciation			
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
Exchange adjustment	31	114	145
Charge for year	214	1,305	1,519
Disposals	(68)	(720)	(788)
Disposal of subsidiaries (see note 28)	–	(4)	(4)
Transfer to assets held for sale (see note 11)	(9)	(218)	(227)
30 September 2018	1,690	6,676	8,366
Net book value			
30 September 2018	15,348	4,690	20,038
30 September 2017	9,071	5,750	14,821
Analysis of land & buildings			
Net book value			
Freehold	14,674	8,381	
Long leasehold	674	690	
	15,348	9,071	
Included in property, plant and equipment are assets in the course of construction totalling £6,747,000 (2017: £841,000) which are not yet being depreciated.			
Property, plant and equipment with a net book value of £12.1m (2017: £6.0m) has been pledged as security in relation to all US borrowings as detailed in note 22.			
Capital commitments			
Contracted but not provided for	3,674	609	

17. INVESTMENTS IN SUBSIDIARIES

	Parent Company	£'000
Cost		
1 October 2016		7,737
Inter group transfer of subsidiary		(482)
Capital contribution to subsidiaries		950
30 September 2017		8,205
Capital contribution to subsidiaries		1,049
Inter company transfer of subsidiary – Speciality Oils Holding Co Kenya Limited		1
Disposal of subsidiaries		(2,245)
30 September 2018		7,010
Parent Company	2018 £'000	2017 £'000
Subsidiary:		
R C Treatt & Co Limited – 50,000 ordinary shares of £1 each, fully paid	4,392	3,584
Treatt USA Inc – 2,975,000 common stock of US \$1 each, fully paid	2,617	2,376
Treatt Development Co Limited – 2 ordinary shares of £1 each, fully paid	–	–
Earthoil Plantations Limited – 4,051,000 ordinary shares of 50p each, fully paid	–	2,245
Speciality Oils Holding Co Kenya Limited		
2,500 "A" ordinary shares of KES20 each, fully paid		
2,500 "B" ordinary shares of KES20 each, fully paid	1	–
	7,010	8,205

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
Treatt SIP Trustees Limited	England ¹	100%	Employee share trust
Treatt Development Company Limited	England ¹	100%	Property development
Speciality Oils Holding Company Kenya Limited (formerly Earthoil Kenya Pty Limited)	Kenya ³	100%	Intermediate holding company

Wholly owned by Speciality Oils Holding Company Kenya Limited:

Athi River Oils EPZ Limited (formerly Earthoil Africa EPZ Limited)	Kenya ³	100%	Supply of organic & fair trade vegetable oils
Nanyuki Oils Limited (formerly 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.

Notes to the financial statements continued

for the year ended 30 September 2018

18. DEFERRED TAXATION

Group		2018 £'000	2017 £'000
UK deferred tax asset		1,073	1,380
Overseas deferred tax liability		(401)	(764)
Net deferred tax asset		672	616

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 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 other comprehensive income	(250)	–	(112)	–	–	–		(362)
Credit to equity	–	–	–	359	–	171		530
30 September 2017	989	(133)	(13)	537	(1,338)	574		616
Disposal of subsidiaries	–	(4)	–	–	–	–		(4)
Exchange differences	–	–	–	–	(19)	13		(6)
Credit/(charge) to income statement	For the year	24	54	109	3	216	(64)	342
Credit/(charge) to income statement	For change in tax rate	–	–	–	–	366	(35)	331
Charge to other comprehensive income		(426)	–	(27)	–	–	–	(453)
Charge to equity		–	–	–	(5)	–	(114)	(119)
Transfer to assets held for sale		–	(35)	–	–	–	–	(35)
30 September 2018	587	(118)	69	535	(775)	374		672

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% (2017: 17%) as legislation has been substantively enacted which reduces the main rate of UK corporation tax from 19% to 17% from 1 April 2020. 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 24% (2017: 36%).

19. INVENTORIES

Group		2018 £'000	2017 £'000
Raw materials		19,463	22,289
Work in progress and intermediate products		16,939	13,363
Finished goods		3,240	7,226
		39,642	42,878

Inventory with a carrying value of £19.9m (2017: £16.2m) has been pledged as security in relation to all US borrowings as detailed in note 22.

20. TRADE AND OTHER RECEIVABLES

Current	Group		Parent Company	
	2018 £'000	2017 £'000	2018 £'000	2017 £'000
Trade receivables	24,682	18,096	–	–
Amounts owed by subsidiaries	–	–	181	516
Other receivables	3,412	1,153	2,326	7
Prepayments	735	724	–	–
	28,829	19,973	2,507	523

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	2018	2017
Average debtor days	70	57

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	2018 £'000	2017 £'000
Impairment provision		
At start of year	314	308
Released in year	(133)	(130)
Provided in year	75	139
Foreign exchange	2	(3)
Balance at end of year	258	314

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 35% (2017: 33%) 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.

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20. TRADE AND OTHER RECEIVABLES continued

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

Group	2018 £'000	2017 £'000
Number of days past the due date:		
1-30	2,395	1,372
31-60	256	198
Over 60	1,147	647

The ageing profile of impaired trade receivables is as follows:

Group	2018 £'000	2017 £'000
Number of days past the due date:		
Current	40	–
1-30	3	–
31-60	7	–
Over 60	208	314

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 33 and the Financial Review on pages 32 to 38. The currency exposure within trade receivables, analysed by currency, was as follows:

Group	2018 £'000	2017 £'000
GB Pound	3,640	3,330
US Dollar	18,979	13,257
Euro	2,096	1,917

Trade receivables with a carrying value of £10.8m (2017: £7.9m) have been pledged as security in relation to US borrowings as detailed in note 22.

21. CASH AND BANK BALANCES

Group

Cash and bank balances of £32,304,000 (2017: £4,748,000) 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 33. 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.

22. BORROWINGS

Current

Group	2018 £'000	2017 £'000
Term loans	–	3,212
UK bank borrowings	19,244	4,468
	19,244	7,680

Non-current

Group	2018 £'000	2017 £'000
Term loans	–	585
UK revolving credit facilities	–	6,708
US line of credit	621	–
US construction loans	2,380	–
	3,001	7,293

Loans and borrowings

Term loans comprise the following:

Group	2018 £'000	2017 £'000
Loan – UK	–	3,000
Industrial development loan – US	–	775
Equipment financing loans – US	–	22
	–	3,797

During the year all term loans were repaid in full.

The US Dollar overdraft facility ("line of credit") of \$6m is a three-year facility expiring in 2020. During the year the Group entered into an agreement with Bank of America to finance the expansion of the Group's US facility. This entailed a construction line of credit for up to \$7.5m which converts into a seven-year term loan following completion of the project. The US line of credit and construction loan, 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. During the year all UK term loans and revolving credit facilities were repaid in full.

Borrowings are repayable as follows:

Group	2018 £'000	2017 £'000
-in one year or less	19,244	7,680
-in more than one year but not more than two years	621	6,898
-in more than two years but not more than five years	–	395
-in more than five years	2,380	–
	22,245	14,973

Further information on Group borrowing facilities is given in notes 32 and 33, including a detailed analysis of cash balances by currency.

Borrowing facilities

At 30 September 2018, the Group had total borrowing facilities of £25.0m (2017: £25.9m) of which £4.3m (2017: £14.0m) expires in one year or less at the balance sheet date. At 30 September 2018 the Group had access to £34.4m (2017: £15.7m) of financing facilities including its own cash balances at that date.

Notes to the financial statements continued

for the year ended 30 September 2018

23. PROVISIONS

Group	2018 £'000	2017 £'000
Onerous contract provision:		
At start of year	57	67
Utilised in year	(53)	(67)
Additional provision in year	52	60
Foreign exchange	2	(3)
Balance at end of year	58	57

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.

24. TRADE AND OTHER PAYABLES

Current	Group		Parent Company	
	2018 £'000	2017 £'000	2018 £'000	2017 £'000
Trade payables	10,006	13,311	18	–
Amounts owed to subsidiaries	–	–	2,427	416
Other taxes and social security costs	551	577	–	1
Accruals and other creditors	4,741	3,928	352	70
	15,298	17,816	2,797	487

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 33 and the Financial Review on pages 32 to 38. The currency exposure within trade payables, analysed by currency, was as follows:

Group	2018 £'000	2017 £'000
GB Pound	1,595	1,631
US Dollar	5,972	6,160
Euro	452	1,207

25. DERIVATIVE FINANCIAL INSTRUMENTS

Group	2018 £'000	2017 £'000
Derivative financial assets:		
Current:		
Foreign exchange contracts	–	483
	–	483
Derivative financial liabilities:		
Foreign exchange contracts	401	–
Non-current:		
Interest rate swaps	–	403
	401	403

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

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

Further details on the Group's hedging policies and derivative financial instruments are disclosed in note 33.

26. SHARE CAPITAL

Parent Company and Group Called up, allotted and fully paid	2018 £'000	2018 Number	2017 £'000	2017 Number
At start of year	1,058	52,905,170	1,053	52,655,170
Issued in year	131	6,565,500	5	250,000
At end of year	1,189	59,470,670	1,058	52,905,170

During the year the Parent Company issued 5,265,500 shares through a placing at a share price of £4.10 per share. In addition the Parent Company issued 230,000 (2017: 150,000) 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 as well as 1,070,000 (2017: 100,000) 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.

27. SHARE PREMIUM ACCOUNT

Parent Company and Group	£'000
Balance at 1 October 2016 and 30 September 2017	2,757
Premium arising on issue of equity shares	21,483
Expenses of issue of equity shares	(756)
Balance at end of year 30 September 2018	23,484

As disclosed in note 26, during the period the Company issued 5,265,500 ordinary shares of 2p each. These were issued at a share price of £4.10 per share, representing a premium of £4.08 per share.

Notes to the financial statements continued

for the year ended 30 September 2018

28. DISPOSAL OF SUBSIDIARY

As referred to in note 11, on 31 May 2018 the Group disposed of its interest in Earthoil Plantations Limited.

The net assets of Earthoil Plantations Limited at the date of disposal were as follows:

	31 May 2018 £'000
Intangible assets	120
Inventories	4,382
Trade and other receivables	1,633
Bank balances and cash	3
Deferred tax assets	4
Current tax liability	(58)
Trade and other payables	(1,678)
Attributable goodwill	2,727
	7,133
Costs incurred during disposal	544
Gain on disposal	2,382
Total consideration	10,059
Satisfied by:	
Cash and cash equivalents	9,293
Completion settlement post year end	(267)
Deferred consideration	1,033
	10,059
Net cash inflow arising on disposal:	
Consideration received in cash and cash equivalents	9,293
Less:	
Cost incurred during disposal	(544)
Cash and cash equivalents disposed of	(3)
	8,746

There were no disposals of subsidiaries in 2017.

The deferred consideration is expected to be settled in cash by the purchasers on or before 1 June 2019.

The impact of Earthoil Plantations Limited on the Groups results in the current period and prior period is disclosed in note 11.

29. 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	2018 £'000	2017 £'000
Share option schemes – see (a) below	780	827
Share incentive plans – see (b) below	269	124
	1,049	951
Effect of movement in foreign exchange rates	(9)	15
	1,040	966

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	–	42,250	138.0p	Sep 2017 – Feb 2018
UK SAYE ¹ Scheme 2015	4,772	157,747	132.0p	Sep 2018 – Feb 2019
UK SAYE ¹ Scheme 2016	209,590	10,448	138.0p	Sep 2019 – Feb 2020
UK SAYE ¹ Scheme 2017	90,341	1,221	413.0p	Sep 2020 – Feb 2021
UK SAYE ¹ Scheme 2018	108,021	–	373.0p	Sep 2021 – Feb 2022
US ESPP ² Scheme 2017	–	15,186	404.0p	July 2018
US ESPP ² Scheme 2018	17,499	–	370.0p	July 2019
UK LTIP ³ Scheme 2014	12,565	35,566	Nil	June 2017 – June 2024
UK LTIP ³ Scheme 2015	17,484	94,039	Nil	June 2018 – June 2025
US LTIP ³ Scheme 2015	–	113,993	Nil	June 2018 – Mar 2019
UK LTIP ³ Scheme 2016	93,809	9,701	Nil	Dec 2019 – Dec 2026
US LTIP ³ Scheme 2016	119,248	–	Nil	June 2019 – Mar 2020
UK LTIP ³ Scheme 2017	32,018	1,977	Nil	Dec 2020 – Dec 2027
US LTIP ³ Scheme 2017	50,160	–	Nil	June 2020 – Mar 2021
UK LTIP ³ Scheme 2018	38,647	–	Nil	Dec 2021 – Dec 2028
US LTIP ³ Scheme 2018	54,229	–	Nil	June 2021 – Mar 2022
US Executive ⁴ Options 2012	–	97,740	79.0p	Dec 2017 – Dec 2022
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 – Mar 2019
UK Executive ⁴ Options 2016	172,746	–	Nil	Dec 2019 – Dec 2026
UK Executive ⁴ Options 2017	112,167	–	Nil	Dec 2019 – Dec 2027

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 continued

for the year ended 30 September 2018

29. 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:	SAYE 2015	SAYE 2016	SAYE 2017	SAYE 2018	US ESPP 2017	US ESPP 2018
Share price at date of grant	165.0p	172.5p	516.3p	466.3p	475.0p	435.3p
Contractual life	3.5 years	3.5 years	3.5 years	3.5 years	1 year	1 year
Expected life	3.5 years	3 years	3 years	3 years	1 year	1 year
Expected volatility	23.3%	20.7%	25.6%	27.3%	32.0%	28.2%
Risk-free interest rate	1.52%	0.36%	0.49%	0.71%	0.49%	0.71%
Dividend yield	2.4%	2.4%	0.9%	1.1%	0.9%	1.1%
Expected cancellations	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%
Expected forfeitures	14.3%*	12.0%	7.0%	1.0%	0.3%*	0.0%
Fair value per option at date of grant	25.6p	31.7p	123.0p	114.2p	87.0p	74.8p
Key-employee share schemes:	UK LTIP 2015	US LTIP 2015	UK LTIP 2016	US LTIP 2016	UK LTIP 2017	US LTIP 2017
Share price at date of grant	158.0p	158.0p	170.0p	170.0p	503.5p	516.3p
Contractual life	10 years	3.2 years	10 years	3.2 years	10 years	3.2 years
Expected life	10 years	3 years	5 years	3.2 years	5 years	3.2 years
Expected volatility	23.3%	23.3%	20.7%	20.7%	25.6%	25.6%
Risk-free interest rate	1.44%	1.44%	0.86%	0.86%	0.51%	0.49%
Dividend yield	2.5%	2.5%	2.4%	2.4%	0.9%	0.9%
Expected cancellations	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Expected forfeitures	5.5%*	0.0%*	6.0%	5.0%	9.0%	4.0%
Fair value per option at date of grant	123.6p	146.0p	150.7p	157.3p	481.7p	502.2p
US LTIP 2018						
Share price at date of grant	483.0p					
Contractual life	3.2 years					
Expected life	3.2 years					
Expected volatility	27.3%					
Risk-free interest rate	0.68%					
Dividend yield	1.0%					
Expected cancellations	0.0%					
Expected forfeitures	75.0%					
Fair value per option at date of grant	467.4p					

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						
Expected life	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	UK Exec 2017					
Share price at date of grant	273.5p	452.0p					
Contractual life	10 years	10 years					
Expected life	5 years	5 years					
Expected volatility	20.7%	25.6%					
Risk-free interest rate	0.57%	0.51%					
Dividend yield	1.6%	1.1%					
Expected cancellations	0.0%	0.0%					
Expected forfeitures	0.0%	75.0%					
Fair value per option at date of grant	252.3p	428.6p					

* Actual forfeiture experienced.

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 was made.

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

	No of options 2018	Weighted average exercise price 2018	No of options 2017	Weighted average exercise price 2017
Outstanding at start of year	2,055,870	£0.60	2,054,300	£0.45
Granted during the year	341,392	£1.38	369,625	£1.31
Forfeited during the year	(41,235)	£1.38	(37,757)	£1.24
Exercised during the year	(873,084)	£0.49	(322,618)	£0.79
Expired during the year	(5,523)	£0.00	(5,335)	£1.35
Cancelled during the year	(5,773)	£3.24	(2,345)	£1.38
Outstanding at end of year	1,471,647	£0.82	2,055,870	£0.60
Exercisable at end of year	34,821	£0.18	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 5.1 years (2017: 5.5 years). The weighted average actual market share price on date of exercise for share options exercised during the year was 471.1 pence (2017: 480.6 pence) and the weighted average fair value of options granted during the year was 316.6 pence (2017: 261.8 pence).

Notes to the financial statements continued

for the year ended 30 September 2018

29. SHARE-BASED PAYMENTS continued

(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 £575 (2017: £550) of "Free Shares", and US employees \$875 (2017: \$850) 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 and a half (2017: one) "Matching Shares" were 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	
	2018	2017	2018	2017
Outstanding at start of year	180,854	147,548	54,904	38,288
Granted during the year	69,809	59,598	10,439	16,864
Vested during the year	(44,831)	–	(19,032)	–
Forfeited during the year	(6,676)	(9,619)	(1,694)	(248)
Released during the year	(14,311)	(16,673)	–	–
Outstanding at end of year	184,845	180,854	44,617	54,904
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.

At 30 September 2018 the market value of the shares held by the EBT was £2,620,000 (2017: £1,626,000), and the market value of shares held by the SIP was £2,610,000 (2017: £1,640,000) of which £1,573,000 (2017: £1,252,000) relates to shares beneficially held by employees.

30. 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:

	2018 £'000	2017 £'000
Defined contribution schemes	743	732
Other pension costs	24	24
Total	767	756

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 2018 (2017: 1 January 2015) carried out by Barnett Waddingham and updated by Mrs L Lawson, a Fellow of the Institute and Faculty of Actuaries, to take account of the requirements of IAS 19 in order to assess the liabilities of the scheme at 30 September 2018. Scheme assets are stated at their market value as at that date.

The scheme is subject to the Statutory Funding Objective under the Pensions Act 2004. A valuation of the scheme is carried out at least once every three years to determine whether the Statutory Funding Objective is met. As part of the process the 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.

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

	2018	2017
Discount rate	2.90%	2.85%
Rate of inflation (RPI)	3.35%	3.40%
Rate of inflation (CPI)	2.35%	2.40%
Rate of increase in pensions in payment – CPI max 5%	2.30%	2.40%
Rate of increase in pensions in payment – CPI max 3%	2.00%	2.20%
Rate of increase in pensions in payment – CPI max 2.5%	1.85%	2.05%
Revaluation in deferment	2.35%	2.40%
Mortality table	100% of S2PxA table with CMI_2016 projections with a long-term average rate of improvement of 1.25% pa	100% of S2PxA table with CMI_2015 projections with a long-term average rate of improvement of 1.25% pa
Commutation allowance	20%	20%
Proportion married (at retirement or earlier death)	75%	75%
Rate of increase in salaries	N/A	N/A
Life expectancy for male aged 65 in 20 years' time	23.6	24.0
Life expectancy for female aged 65 in 20 years' time	25.6	26.2
Life expectancy for male aged 65 now	22.2	22.3
Life expectancy for female aged 65 now	24.0	24.3

Effect of the scheme on future cash flows

The Company is required to agree a schedule of contributions with the trustees of the scheme following a valuation which must be carried out at least once every three years. The latest valuation of the scheme took place as at 1 January 2018. The valuation revealed that there was a funding surplus in the scheme as at that date of £473,000, being a funding level of 103%. It has been agreed with the trustees that, consequently, the Company could continue not to make contributions to the scheme for the foreseeable future. It was further agreed that if the annual actuarial funding update revealed that the scheme funding level had fallen to below 95%, then contributions would be resumed. The actuarial funding update as at 30 September 2018 revealed an actuarial surplus of £694,000 (2017: deficit of £336,000), being a funding level of 103% (98%). The Company expects to make on-going contributions to its defined benefit pension scheme in 2019 of £nil (2018: £nil). The weighted average duration of the defined benefit obligation is approximately 19 years.

Notes to the financial statements continued

for the year ended 30 September 2018

30. POST-EMPLOYMENT BENEFITS continued

	2018 £'000	2017 £'000
Scheme assets:		
Equities	11,515	11,135
Target return funds	5,492	5,599
Bonds	4,172	4,152
Other	106	83
Fair value of scheme assets	21,285	20,969
Present value of funded obligations (scheme liabilities)	(24,742)	(26,790)
Deficit in the scheme recognised in the balance sheet	(3,457)	(5,821)
Related deferred tax	587	990
Net pension liability	(2,870)	(4,831)
Changes in scheme liabilities		
Balance at start of year	(26,790)	(27,252)
Interest cost	(756)	(699)
Benefits paid	548	719
Remeasurement losses:		
– Experience gains on obligation	1,272	–
– Actuarial gain arising from changes to demographic assumptions	399	–
– Actuarial gain/(loss) arising from changes in financial assumptions	585	442
Balance at end of year	(24,742)	(26,790)
Changes in scheme assets		
Balance at start of period	20,969	19,851
Interest on scheme assets	590	511
Employer contributions	25	300
Benefits paid	(548)	(719)
Remeasurement gains:		
– Return on plan assets (excluding amounts included in interest expense)	249	1,026
Balance at end of year	21,285	20,969

	2018 £'000	2017 £'000
Amount charged to finance costs		
Interest on scheme assets	590	511
Interest on scheme liabilities	(756)	(699)
Net finance expense	(166)	(188)
Net expense recognised in income statement	(166)	(188)
Amount recognised in statement of comprehensive income		
Gain on scheme assets in excess of interest	249	1,026
Gain on obligation	1,272	–
Gain from changes to demographic assumptions	399	–
Gain/(loss) from changes to financial assumptions	585	442
Remeasurement gain/(loss) recognised in statement of comprehensive income	2,505	1,468
Actual return on scheme assets	839	1,537
Cumulative remeasurement loss recognised in statement of comprehensive income	(4,475)	(6,980)
Approximate effect of change of assumptions on liability values at 30 September 2018:		
	Increase liability by: £'000	
Reduce discount rate by 0.25% pa	1,110	
Increase inflation and all related assumptions by 0.1% pa	271	
Increase life expectancy by one year	937	

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

Notes to the financial statements continued

for the year ended 30 September 2018

31. COMMITMENTS UNDER OPERATING LEASES

The Group as lessee

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

	2018 £'000	2017 £'000
Within one year	85	85
In one to two years	42	56
In two to five years	25	64
In more than five years	–	3
	152	208

The Group as lessor

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

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

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

32. CONTINGENT LIABILITIES

Parent Company

The Parent Company has guaranteed the borrowings for Treatt USA Inc. At the balance sheet date the liability covered by this guarantee amounted to US\$3,914,000 (£3,001,000) (2017: US\$1,040,000 (£775,000)).

The Parent Company has also guaranteed certain bank borrowings of its UK subsidiaries R C Treatt & Co Limited and Treatt Development Company Limited. At the year-end the liabilities covered by this guarantee amounted to £19,018,000 (2017: £12,843,000).

33. 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 £4.5m (2017: £2m) three year revolving credit facility with Lloyds Banking Group and a \$12m (2017: \$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. During the year the Group entered into a further agreement with Bank of America for a \$7.5m construction loan facility. 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 Financial Review on pages 32 to 38.

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	
	2018 £'000	2017 £'000	2018 £'000	2017 £'000
Financial assets				
Trade receivables	24,681	18,096	–	–
Cash and cash equivalents	32,304	4,748	31,647	2,590
Derivative financial instruments – forward currency contracts (level 2)	–	483	–	–
	56,985	23,327	31,647	2,590
Financial liabilities				
Trade payables	10,006	13,311	18	–
Bank borrowings	19,865	4,468	–	–
UK term loan	–	3,000	–	–
UK revolving credit facilities	–	6,708	–	–
US term loans	2,380	797	–	–
Derivative financial instruments – forward currency contracts (level 2)	401	–	–	–
Derivative financial instruments – interest rate swap (level 2)	–	403	–	–
	32,652	28,687	18	–

Notes to the financial statements continued

for the year ended 30 September 2018

33. 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 20. 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 21. 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.

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 22.

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 settled all outstanding interest rate swaps during the year. The interest rate swap in the prior year was as follows:

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

The gain on interest rate swaps was as follows:

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

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

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	
	2018 £'000	2017 £'000	2018 £'000	2017 £'000	2018 £'000	2017 £'000
Bank borrowings/(cash):						
US dollars*	2,982	(869)	—	7,505	2,982	6,636
Sterling*	(13,733)	2,790	—	—	(13,733)	2,790
Other*	692	799	—	—	692	799
Total net debt/(cash)	(10,059)	2,720	—	7,505	(10,059)	10,225

* Bank borrowings are shown net of positive cash balances where 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%-1.85% above bank base or currency LIBOR rates.

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 2018 would have decreased or increased as follows:

	2018 £'000	2017 £'000	2018 £'000	2017 £'000
Impact on profit before tax of 1% interest rate movement	(101)	120	—	—

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.

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 Financial Review on pages 32 to 38.

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

As at 30 September 2018	Average contract rate	Nominal currency '000	Contract GBP £'000	Asset/ (liability) £'000
US Dollars:				
Forward contract to sell US Dollars in six months				
Forward contract to sell US Dollars in six months	1.360	\$17,500	12,872	(549)
Forward contract to sell US Dollars in six months	1.361	\$3,500	2,573	(112)
Forward contract to sell US Dollars in six months	1.278	\$14,700	11,503	281
Euros:				
Forward contract to sell Euros in six months				
Forward contract to sell Euros in six months	1.138	€2,000	1,758	(27)
Forward contract to sell Euros in six months	1.114	€1,800	1,616	6
				(401)

Notes to the financial statements continued

for the year ended 30 September 2018

33. FINANCIAL INSTRUMENTS continued

As at 30 September 2017	Average contract rate	Nominal currency '000	Contract GBP £'000	Asset/(liability) £'000
US Dollars:				
Forward contract to sell US Dollars in three months	1.296	\$8,400	6,481	205
Forward contract to sell US Dollars in six months	1.301	\$8,400	6,456	196
Euros:				
Forward contract to sell Euros in three months	1.097	€1,500	1,367	42
Forward contract to sell Euros in six months	1.096	€1,500	1,369	40
				483

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

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 assets/(liabilities):	2018 £'000	2017 £'000
US Dollar	4,907	(4,820)
Other	1,471	(12)
	6,378	(4,832)

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	2018 £'000	2017 £'000
Impact of 10% strengthening of US Dollar against GB Pound	545	(536)

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.

34. 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 71 to 75.

	2018 £'000	2017 £'000
Salaries and other short-term employee benefits	1,262	1,139
Employers' social security costs	108	96
Pension contributions to money purchase schemes	56	53
Share-based payments	440	341
	1,866	1,629

During the year no Directors (2017: 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 2018 was £14,000 (2017: £13,000) per annum.

Parent Company

	2018 £'000	2017 £'000
Transactions with subsidiaries:		
Interest received from:		
Earthoil Plantations Limited	29	9
Athi River Oils EPZ Limited	–	4
Dividends received from:		
R C Treatt & Co Limited	1,600	1,977
Treatt USA Inc	1,302	2,167

	2018 £'000	2017 £'000
Balances with subsidiaries:		
Amounts owed to/(by) Parent Company:		
Earthoil Plantations Limited	–	(416)
Athi River Oils EPZ Limited ¹	2,181	–
R C Treatt & Co Limited	(2,426)	516

Amounts owed to the Parent Company are unsecured and will be settled in cash.

1 Following the disposal of Earthoil Plantations the amount owed by Athi River Oils EPZ Limited has been impaired by £2,000,000 as on a stand-alone basis they would not have sufficient funds to meet the above balance. This had no impact on Group results.

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 25 January 2019 at 10.30 am at Treatt plc, Northern Way, Bury St Edmunds, Suffolk, IP32 6NL is set out below.

Shareholders are requested to complete and submit your proxy appointment online by using the Signal Shares share portal service at www.signalshares.com as soon as possible and, in any event, by no later than 10.30 am on 23 January 2019, being 48 hours before the time appointed for the holding of the Annual General Meeting. To do so, you will need to log in to your Treatt plc Signal Shares account, or register if you have not previously done so. To register you will need your Investor Code, which is detailed on your share certificate or is available from our registrars, Link Asset Services. For those who hold their shares in uncertificated form in CREST, proxy appointments may be made via the CREST system.

Proxy appointments can also be made by completing a paper proxy form and returning it to Link Asset Services in accordance with the instructions printed on the form. If you require a paper proxy form, please contact Link Asset Services on 0871 664 0300 if calling from the United Kingdom or +44 371 664 0300 if calling from outside of the United Kingdom. Calls cost 12p per minute plus your phone company's access charge. Calls outside the United Kingdom will be charged at the applicable international rate. Lines are open between 09:00 and 17:30, Monday to Friday excluding public holidays in England and Wales.

Notice is hereby given that the Annual General Meeting of the Shareholders of Treatt plc (the "Company") will be held at Treatt plc, Northern Way, Bury St Edmunds, Suffolk, IP32 6NL on 25 January 2019, at 10.30 am for the transaction of the following business:

ORDINARY RESOLUTIONS

Resolution 1 – Annual Accounts and Directors' Report

1. To receive the audited accounts and related reports of the Directors and Auditors for the year ended 30 September 2018.

Explanatory note

Under the Companies Act 2006 (the 'Act') the Directors of the Company must present the accounts to the meeting.

Explanatory note

A final dividend can only be paid after the shareholders at a general meeting have approved it. A final dividend of 3.5 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 8 February 2019. If approved, the date of payment of the final dividend will be 21 March 2019. An interim dividend of 1.60 pence per ordinary share was paid on 16 August 2018. This represents an increase of 0.70 pence per share, or 6.25%, on the total 2017 dividend.

Resolution 2 – Directors' Remuneration Report

2. To approve the Directors' Remuneration Report.

Explanatory note

The Act, 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 Remuneration Policy is only required to be approved by shareholders every three years or in the intervening period if amendments are proposed. The Company's Remuneration Policy was approved at the 2018 Annual General Meeting and accordingly, since no amendments are proposed, it will not be put before shareholders at the Annual General Meeting in 2019. Resolution 2 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 2018. You can find the Implementation Section of the Directors' Remuneration Report on pages 70 to 75.

Resolutions 4 to 9 – Re-election of Directors

4. To re-elect Tim Jones as a Director of the Company.
5. To re-elect Daemmon Reeve as a Director of the Company.
6. To re-elect Richard Hope as a Director of the Company.
7. To re-elect David Johnston as a Director of the Company.
8. To re-elect Jeff Iliffe as a Director of the Company.
9. To re-elect Richard Illek as a Director of the Company.

Explanatory note

In view of the forthcoming 2018 Corporate Governance Code and the requirement for all directors to be re-elected annually, the Company has decided to bring forward compliance with this provision and apply it at the 2019 Annual General Meeting. Accordingly, all Directors, with the exception of Anita Haines, who is retiring as a Non-executive Director at the conclusion of the Annual General Meeting, will retire and stand for re-election as Directors. Short biographies of these Directors are given on pages 50 and 51. 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.

Resolution 3 – Final Dividend

3. To approve a final dividend of 3.5p per share on the ordinary shares of the Company for the year ended 30 September 2018.

Resolution 10 – Re-appointment of Auditors

10. 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.

Explanatory note

At each general meeting at which the Company's Annual Report and Accounts are presented to its ordinary shareholders, the shareholders are required to appoint an auditor to serve until the next such meeting. Following a recommendation by the Audit Committee, the Board is proposing the reappointment of RSM UK Audit LLP as auditors of the Company.

Resolution 11 – Auditors Remuneration

11. To authorise the Directors to determine the remuneration of the Auditors of the Company.

Explanatory note

The remuneration of the Company's auditors must be fixed by the Company in general meeting or in such manner as the shareholders may determine in general meeting. This resolution gives authority to the Directors to determine the remuneration of the auditors of the Company.

Resolution 12 – Approval of Long Term Incentive Plan

12. THAT the Directors be and are hereby authorised:

- (a) to adopt and establish the Treatt plc 2019 Long Term Incentive Plan, the principal terms of which are summarised in Appendix 1 to this Notice of Meeting, and the rules of which are produced to this meeting and, for the purpose of identification only, initialled by the Chairman, and to do all such acts and things which they may consider necessary or desirable to establish and carry it into effect; and
- (b) to establish further plans based on the Treatt plc 2019 Long Term Incentive Plan but modified to take account of local tax, exchange control or securities laws in overseas territories, provided that any shares made available under such further plans are treated as counting against any limits on individual or overall participation contained within the Treatt plc 2019 Long Term Incentive Plan.

Explanatory note

Treatt has operated a Long Term Incentive Plan ('LTIP'), in which the Executive Directors and employees currently participate, since its first approval by shareholders in 2014. The LTIP rules are approved by shareholders for a period of five years and accordingly this resolution seeks approval for the adoption by the Company of rules, which take account of changes in executive remuneration since 2014 and current best practice. The main provisions of the Treatt plc 2019 Long Term Incentive Plan are summarised in Appendix 1 at the end of this Notice of Meeting.

Resolution 13 – Authority to allot securities

13. 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:

- (a) up to an aggregate nominal amount of £396,431 (such amount to be reduced by the nominal amount allotted or granted under paragraph (b) below in excess of such sum); and
- (b) comprising equity securities (as defined in Sections 560 of the Act) up to an aggregate nominal amount of £792,862 (such amount to be reduced by any allotments or grants made under paragraph (a) above) in connection with an offer by way of a rights issue in favour of ordinary shareholders in proportion (as nearly as may be practicable) to the respective number of ordinary shares held by them on the record date for such allotment (and holders of any other class of equity securities entitled to participate therein or if the Directors consider it necessary, as permitted by the rights of those securities), but subject to such exclusions or other arrangements as the Directors may consider necessary or appropriate to deal with fractional entitlements, treasury shares, record dates or legal, regulatory or practical difficulties which may arise under the laws of, or the requirements of any regulatory body or stock exchange in, any territory or any other matter whatsoever,

provided that this authority shall expire at the conclusion of the Annual General Meeting of the Company to be held in 2020, or at close of business on 25 April 2020 (whichever occurs first) save that the Company may before such expiry make an offer or enter into an agreement which would or might require shares to be allotted, or rights to subscribe for or to convert securities into shares to be granted, after such expiry and the Directors may allot shares or grant such rights in pursuance of such an offer or agreement as if the authority conferred hereby had not expired.

Explanatory note

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 to subscribe for, or convert other securities into, shares and will expire at the conclusion of the next Annual General Meeting of the Company in 2020 or, if earlier, on 25 April 2020 (the date which is 15 months after the date of passing of the resolution). Whilst the Board has no present intention of exercising these authorities, the Board believes it is in the best interests of the Company to have these authorities so that, if the need arises, the Board can allot securities at short notice and without the need to hold a general meeting of the Company.

The authority in paragraph (a) of the resolution will allow the Directors to allot new shares and grant rights to subscribe for, or convert other securities into, shares up to an aggregate nominal value of £396,431 (representing approximately one-third (33.33%) of the total issued ordinary share capital of the Company as at 23 November 2018, the latest practicable date prior to publication of this Notice).

The authority in paragraph (b) of the resolution will allow the Directors to allot new shares and grant rights to subscribe for, or convert other securities into, shares only in connection with a rights issue up to an aggregate nominal value of £792,862 (representing approximately two-thirds (66.66%) of the total issued ordinary share capital of the Company as at 23 November 2018, the latest practicable date prior to publication of this Notice (such amount to be reduced by the amount of any relevant securities issued under the authority conferred by paragraph (a) of resolution 9)).

Notice of Annual General Meeting continued

SPECIAL RESOLUTIONS

Resolution 14 – Authority to disapply pre-emption rights

14. THAT subject to the passing of resolution 13 above and in accordance with Sections 570 and 573 of the Act, the Directors be and are hereby given power to allot equity securities (within the meaning of Section 560 of the Act) for cash pursuant to the authority conferred by resolution 13 above and to sell ordinary shares (as defined in Section 560(1) of the Act) held by the Company as treasury shares for cash, as if Section 561 of the Act did not apply to any such allotment of equity securities for cash or sale of treasury shares, such power to be limited:

- (a) in connection with or pursuant to an offer of, or invitation to acquire, equity securities (but in the case of the authority granted under paragraph (b) of resolution 13, by way of a rights issue only) in favour of holders of ordinary shares in proportion (as nearly as practicable) to the respective number of ordinary shares held by them on the record date for such allotment or sale (and holders of any other class of equity securities entitled to participate therein or if the Directors consider it necessary, as permitted by the rights of those securities) but subject to such exclusions or other arrangements as the Directors may consider necessary or appropriate to deal with fractional entitlements, treasury shares, record dates or legal, regulatory or practical difficulties which may arise under the laws
- (b) in the case of the authority granted under paragraph (a) of resolution 13 and/or in the case of any sale of treasury shares, (and otherwise than under paragraph (a) of this resolution) up to an aggregate nominal amount of £59,470,

provided that this power shall expire at the conclusion of the Annual General Meeting of the Company to be held in 2020 or at close of business on 25 April 2020 (whichever occurs first), save that the Company may before such expiry make an offer or enter into an agreement which would or might require equity securities to be allotted, or treasury shares to be sold, after such expiry and the Directors may allot equity securities or sell treasury shares in pursuance of such an offer or agreement as if the power conferred hereby had not expired.

Explanatory note

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 14 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 £59,470 (which includes the sale on a non pre-emptive basis of any shares held in treasury), which is equivalent to approximately 5% of the Company's issued ordinary share capital as at 23 November 2018, the latest practicable date prior to publication of this Notice. 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 2020 or, if earlier, 25 April 2020 (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 (the 'Statement of Principles') and to not allot shares for cash on a non pre-emptive basis pursuant to the authority in Resolution 14 (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.

Resolution 15 – Authority to disapply pre-emption rights for the purposes of acquisitions or capital investments

15. THAT subject to the passing of resolutions 13 and 14 above and in addition to the power granted under resolution 14, the Directors be and are hereby given power pursuant to Sections 570 and 573 of the Act to allot equity securities (within the meaning of Section 560 of the Act) for cash pursuant to the authority conferred by resolution 13 above and to sell ordinary shares (as defined in Section 560(1) of the Act) held by the Company as treasury shares for cash, as if Section 561 of the Act did not apply to any such allotment of equity securities for cash and sale of treasury shares, such power to be:

- (a) limited to the allotment of equity securities for cash and sale of treasury shares up to an aggregate nominal amount of £59,470; and
- (b) used only for the purposes of financing (or refinancing, if the authority is to be used within six months after the original transaction) a transaction which the Directors have determined to be an acquisition or other capital investment of a kind contemplated by the Statement of Principles on Disapplying Pre-Emption Rights most recently published by the Pre-Emption Group prior to the date of this Notice, or for any other purposes as the Company in general meeting may at any time by special resolution determine,

provided that this power shall expire at the conclusion of the Annual General Meeting of the Company to be held in 2020 or at close of business on 25 April 2020 (whichever occurs first), save that the Company may before such expiry make an offer or enter into an agreement which would or might require equity securities to be allotted, or treasury shares to be sold, after such expiry and the Directors may allot equity securities or sell treasury shares in pursuance of such an offer or agreement as if the power conferred hereby had not expired.

Explanatory note

The purpose of this resolution 15 is to seek a further power from shareholders to allot equity securities or sell treasury shares for cash otherwise than to existing shareholders pro rata to their holdings to reflect the Statement of Principles for the disapplication of pre-emption rights.

Accordingly, resolution 15 will be proposed as a special resolution to grant such a power. The power will be limited to the allotment of equity securities and sales of treasury shares for cash up to an aggregate nominal value of £59,470, being approximately 5% of the Company's issued ordinary share capital as at 23 November 2018, the latest practicable date prior to publication of this Notice. This is in addition to the 5% referred to in resolution 14. If given, the authority will expire at the conclusion of the next Annual General Meeting of the Company in 2020 or, if earlier, 25 April 2020 (the date which is 15 months after the date of passing of the resolution). The Directors will have due regard to the Statement of Principles in relation to any exercise of this power and in particular they confirm that they intend to use this power only in connection with an acquisition or other capital investment (of a kind contemplated by the Statement of Principles from time to time) which is announced contemporaneously with the announcement of the issue, or which has taken place in the preceding six-month period and is disclosed in the announcement of the issue.

The Directors have no present intention of exercising these powers but believe that this resolution will assist them in taking advantage of business opportunities as they arise.

Resolution 16 – Authority to purchase own shares

16. THAT the Company be generally and unconditionally authorised to make market purchases (within the meaning of Section 693 of the Act) of up to a maximum of 5,947,067 ordinary shares in the capital of the Company, subject to the following conditions:
 - (a) the minimum price (excluding expenses) which may be paid for an ordinary share is the nominal amount of that share; and
 - (b) the maximum price which may be paid for an ordinary share so purchased is an amount equal to 5% 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.

The authority hereby conferred shall expire at the conclusion of the Annual General Meeting of the Company to be held in 2020, or if earlier 25 April 2020, save that in relation to the purchase of ordinary shares the contract for which is concluded before such date and which would or might be executed wholly or partly on or after such date, the Company may purchase ordinary shares pursuant to any such contract under this authority.

Explanatory note

In certain circumstances, it may be advantageous for the Company to purchase its own shares and resolution 16 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% of the Company's issued ordinary share capital as at 23 November 2018, the latest practicable date prior to publication of this Notice) 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 2018, the latest practicable date prior to publication of this Notice, was 1,270,488. The proportion of issued share capital that they represented at that time was 2.14% 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 2.37%.

If given, the authority will expire at the conclusion of the next Annual General Meeting of the Company in 2020 or, if earlier, 25 April 2020 (the date which is 15 months after the date of passing of the resolution).

Resolution 17 – Notice of general meetings

17. THAT a general meeting (other than an Annual General Meeting) of the Company may be called on not less than 14 clear days' notice.

Explanatory note

Under the Companies Act 2006, the notice period required for all general meetings of listed companies is 21 days; however, it is possible to reduce this period to 14 days (other than for Annual General Meetings), provided that the following two conditions are met: (i) that a company offers facilities for shareholders to submit proxy appointments by electronic means; and (ii) that there is an annual resolution of shareholders approving the reduction in the minimum notice period from 21 days to 14 days. This resolution would, if passed, allow the Company flexibility to call general meetings, other than Annual General Meetings, on not less than 14 clear days' notice. This additional flexibility would not be used as a matter of routine for such meetings but would be used where the Board considers it appropriate in the circumstances. The approval will be effective until the Company's next Annual General Meeting, at which meeting it is intended to propose a similar resolution for approval.

By order of the Board

Anita Steer

Secretary

Registered Office:

Bury St Edmunds
Suffolk
IP32 6NL

7 December 2018

The note on voting procedures and general rights of shareholders, together with explanatory notes on the resolutions to be put to the meeting form part of this notice.

Notice of Annual General Meeting continued

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 23 January 2019 (the Record Date) shall be entitled to attend or vote at the Annual General Meeting 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 Annual General Meeting. Should the Annual General Meeting 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 Annual General Meeting. Should the Annual General Meeting 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 Annual General Meeting (excluding weekends and public holidays) or, if the Company gives notice of the adjourned Annual General Meeting, 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. Shareholders are requested to complete and submit your proxy appointment online by using the Signal Shares share portal service at www.signalshares.com as soon as possible and, in any event, by no later than 10.30 am on 23 January 2019, being 48 hours before the time appointed for the holding of the Annual General Meeting (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). To do so, you will need to log in to your Treatt plc Signal Shares account, or register if you have not previously done so. To register you will need your Investor Code, which is detailed on your share certificate or is available from our registrars, Link Asset Services.

Proxy appointments can also be made by completing a paper proxy form and returning it to Link Asset Services in accordance with the instructions printed on the form. If you require a paper proxy form, please contact Link Asset Services on 0871 664 0300 if calling from the United Kingdom or +44 371 664 0300 if calling from outside of the United Kingdom. Calls cost 12p per minute plus your phone company's access charge. Calls outside the United Kingdom will be charged at the applicable international rate. Lines are open between 09:00 and 17:30, Monday to Friday excluding public holidays in England and Wales. 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.

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 25 January 2019 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 Annual General Meeting. 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.

Pursuant to Section 319A of the Companies Act 2006, the Company must cause to be answered at the Annual General Meeting any question relating to the business being dealt with at the Annual General Meeting 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 Annual General Meeting, notice of a resolution which those members intend to move (and which may properly be moved) at the Annual General Meeting. A resolution may properly be moved at the Annual General Meeting 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 Annual General Meeting 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 six weeks before the date of the Annual General Meeting.

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 Annual General Meeting any matter (other than a proposed resolution) which may properly be included in the business at the Annual General Meeting. A matter may properly be included in the business at the Annual General Meeting 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 six weeks before the date of the Annual General Meeting.

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 Annual General Meeting, the total voting rights members are entitled to exercise at the Annual General Meeting 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 2018 the Company's issued share capital consists of 59,470,670 ordinary shares. The total number of voting rights in the Company as at 23 November 2018 (the latest practicable date prior to publication of this Notice) is 58,392,674.

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 Annual General Meeting (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.

Notice of Annual General Meeting continued

APPENDIX 1

SUMMARY OF PROVISIONS OF THE TREATT PLC 2019 LONG TERM INCENTIVE PLAN ("LTIP")

The Company proposes to continue the LTIP to incentivise Directors and employees.

The LTIP is capable of making awards of share options (which are unapproved for tax purposes in the UK) and Restricted Stock Units in the US.

It is intended that the LTIP will be used to make awards of "nil cost" share options to selected employees of the Company in the UK, and Restricted Stock Units, which may at the discretion of the Company be satisfied by the transfer of shares, or payment in cash of equivalent value, once vesting conditions have been met, to employees in the US, to allow them to share in the success of the Group and promote motivation and retention.

All Awards will be made in accordance with the Company's Remuneration Policy as approved by shareholders from time to time.

It is proposed that all options granted under the LTIP will have an exercise price equal to the nominal value of a share in the case of a subscription option, and nil in the case of an option to acquire existing shares held in the Treatt Employee Benefit Trust. Restricted Stock Units will similarly be awarded for the nominal value in the case of newly issued shares, and nil in the case of existing shares. The LTIP will be administered by the Remuneration Committee, which will determine any dispute under or question in connection with the Plan.

Grants of Awards

Awards may be granted to eligible employees at the discretion of the Board. Awards may be granted only:

- i) during the period of 42 days following the date of adoption of the LTIP by the Company;
- ii) during the period of 42 days following the announcement of yearly, half yearly or other period financial results of the Company;
- iii) on any other date, if in the opinion of the Directors, the circumstances are exceptional; or
- iv) in the event that any restrictions imposed by statute, order, regulation or Government directive, or by the Market Abuse Regulation or the Share Dealing Code adopted by the Company prevents the Company from making Awards the Award will be made within 42 days after that restriction is removed,

providing that no award shall be made in breach of the Company's Share Dealing Code or of the Market Abuse Regulation or any other law or regulation applicable to the Company.

Eligibility

All full-time employees and Directors of the Group shall be eligible to participate in the LTIP at the discretion of the Board. The making and level of Awards will be determined from year to year on an individual basis by the Committee in accordance with the Remuneration Policy.

Performance Conditions

The Board will impose Performance Conditions applying over a period of at least three years that must be satisfied before Awards vest. The Performance Conditions, which will be determined at the time of grant to ensure that they are sufficiently stretching, will be set in accordance with the Remuneration Policy. If, on vesting, the Committee considered that the level of vesting is inappropriate notwithstanding the satisfaction of any Performance Conditions, it will be able to reduce the extent to which an Award is treated as having vested.

Malus

Notwithstanding that any Performance Condition is or might be satisfied to any extent, Awards may be reduced to such extent (which could be zero) as determined by the Remuneration Committee (the 'Committee') in the event of:

- i) a material misstatement, error or misrepresentation of the Company's financial results used in determination of the number of shares of which the Award subsists;
- ii) an error of any kind in determination of the number of shares of which the Award subsists;
- iii) an Awardholder ceasing to hold office or employment by reason of misconduct;
- iv) any circumstances coming to light after an Awardholder ceases to hold office or employment for any reason, which would have entitled the employer to dismiss the Awardholder summarily prior to the Awardholder ceasing to hold office or employment;
- v) the Company being placed in receivership, compulsory liquidation, administration, being subject to a voluntary arrangement or any composition or arrangement with its creditors generally or any class of its creditors;
- vi) the Committee determining, in its reasonable opinion, that the number of shares in respect of which the award subsists is required to be reduced in order to prevent serious reputational damage; or
- vii) the Committee determining that it is necessary to give effect to a provision for clawback in any form contained in any employee share scheme or share incentive plan (other than this LTIP) or any bonus plan operated by any member of the Group or where the Committee forms the view that a cash bonus paid to the Awardholder within the prior three years was larger than would have been the case by virtue of any of the circumstances in i) to iv) above.

Clawback

Within three years of an Award vesting, the Awardholder shall, if the Committee so determines, be subject to clawback in the event of:

- i) a material misstatement, error or misrepresentation of the Company's financial results used in determination of the number of shares becoming vested shares;
- ii) any error or incorrect statement or fact and/or information or assumption, that the Committee subsequently discovers to have been inaccurate, misleading, misrepresented or misstated, used in determination of the number of shares which become vested shares;
- iii) any error in assessing the extent to which any Performance Condition and/or any other condition imposed on the Award was satisfied;
- iv) the reliance, by the Committee, on incorrect statements and/or facts in the assessment of Performance Conditions and/or any other condition imposed on the Award, which resulted in shares vesting to a greater degree than would have been the case;
- v) an Awardholder leaves employment by reason of misconduct;
- vi) any circumstances coming to light after an Awardholder ceases to hold office or employment for any reason, which would have entitled the employer to dismiss the Awardholder summarily prior to the Awardholder ceasing to hold office or employment
- vii) the Company being placed in receivership, compulsory liquidation, administration, being subject to a voluntary arrangement or any composition or arrangement with its creditors generally or any class of its creditors; or
- viii) the Committee determining, in its reasonable opinion, that the net value of the shares at vesting (market value as reduced by the chargeable tax liability) shall be reduced in order to prevent serious reputational damage.

The Committee shall have the right to clawback from the Awardholder by the following means (or such other legitimate manner as the Committee may specify) by reducing:

- i) the amount of any cash bonus or deferred share bonus payable or granted to the Awardholder under any bonus plan;
- ii) the extent to which any other Award Shares held under any unvested Awards made to the Awardholder are capable of vesting;
- iii) the number of vested shares held under any Awards by the Awardholder;
- iv) the extent to which any rights to acquire shares granted to the Awardholder under any other employees' share scheme or share incentive plan (other than this LTIP, any deferred bonus plan not approved by the Company's shareholders and any plan approved by HMRC under ITEPA) operated by any member of the Group shall vest or become exercisable; and
- v) outstanding vested rights to acquire shares granted to the Awardholder under any other employees' share scheme or share incentive plan (other than this LTIP, any deferred bonus plan not approved by the Company's shareholders and any plan which satisfies the requirements of Schedules 2, 3 or 4 of ITEPA) operated by any member of the Group.

If clawback cannot be satisfied by a reduction set out in i) to v) above, the Committee may require payment as the Committee may direct and on such terms as the Committee may direct, including a deduction from salary, to ensure that clawback is satisfied in full.

Limit of participation

The market value of shares over which Awards may be made under the LTIP, when added to the market value of shares, or rights or opportunities to acquire them, provided under any other employee share scheme of the Company (except a tax approved savings-related share option scheme), may not exceed 150% of the participant's salary for the financial year in which the Award is made or, if greater, 150% of the participant's salary for the previous year.

Salary for this purpose is basic gross salary excluding bonuses, company pension contributions and any other benefits in kind. This limit may be exceeded if the Committee considers that exceptional circumstances exist.

Total number of shares available

The total number of shares that may be newly issued by the Company under Awards made under the LTIP on any day, when added to the total number of shares which remain issuable pursuant to rights or opportunities granted under any other employees' share scheme in the 10 years before that day, will not exceed

- i) 5% of the total share capital in issue on that day; or
- ii) 10% of the total share capital in issue on that day in respect of US awards offered to all or substantially all employees resident in the US (the LTIP is used to provide all US staff with RSU's as an equivalent to the benefit conferred on UK staff through the Share Incentive Plan in the form of free shares).

For this purpose, newly issued shares will include shares issued out of treasury. It will not include rights or opportunities to subscribe for new shares which are in fact satisfied by the transfer of existing shares by another shareholder. Shares subject to options which have lapsed or been surrendered are excluded when calculating the application of this limit.

Vesting of Restricted Stock Units and exercise of options

Awards will vest once Performance Conditions have been either satisfied or waived or are treated as satisfied under the provisions described below. Options shall generally be exercisable after a period beginning with the date on which it is established that a Performance Condition has been satisfied and ending up to ten years from the date of grant. Restricted Stock Units may not be sold, exchanged, pledged or otherwise disposed of until they vest. To the extent that they do not vest, Awards will lapse.

In addition to the vesting conditions, Awards made to Executive Directors of the Company will be subject to a five-year holding period such that they may not sell the shares they receive (other than as required to cover tax due on exercise, or in exceptional circumstances) until, at the earliest, the fifth anniversary of the date on which Awards are granted.

In the case of a takeover, demerger or a statutory reconstruction, the Committee may at its discretion, and acting fairly and reasonably, determine the proportion or number of Awards that will vest, subject to whether and to what extent the Performance Conditions should be deemed to be satisfied.

Notice of Annual General Meeting continued

Award holders may be able to exchange their Awards under the LTIP for Awards over the shares of the Company making any takeover or on an internal reconstruction involving the Company coming under the control of another but remaining under the control of the person or persons who had control of the Company before the reconstruction.

Employees leaving the Company

If an Award holder ceases to hold office or employment with the Group as a Good Leaver, Awards shall vest at the date of cessation but shall be pro-rated by reference to the time elapsed between the date of award and the date of cessation subject to satisfaction, or deemed satisfaction, of the Performance Conditions.

A Good Leaver is any employee leaving by reason of injury or disability, redundancy, death in service, the transfer of the employment outside the Group, or the sale of a Company outside the Group. If an Award holder dies after having ceased to hold employment with the Group, the Committee may determine the extent to which any unvested Awards vest.

If an Award holder leaves for any other reason, all Awards which have not by then vested will vest only to the extent determined by the Committee, at its discretion, acting reasonably, shall determine.

Variation of share capital

In the event of a variation of share capital the Directors may adjust the number of shares under the Award and, where appropriate, the exercise price to reflect such variation. This adjustment shall be subject to confirmation by the Auditors that such adjustment is fair and reasonable.

Alteration of the LTIP

The Directors may at any time alter or amend the provisions of the LTIP provided that no alteration may be made to the advantage of existing or new Award holders without the approval of shareholders by ordinary resolution, except for any such alteration where the amendments are minor, to benefit the administration of the LTIP, to take account of a change in legislation or to obtain or maintain favourable tax treatment.

Pensions

Benefits under the LTIP will not be pensionable.

Parent Company Information and Advisors

Directors	<p>Tim Jones (Chairman and Non-executive Director)</p> <p>Daemmon Reeve (Chief Executive Officer)</p> <p>Richard Hope (Chief Financial Officer)</p> <p>Anita Haines (Non-executive Director – until 26 January 2019)</p> <p>Jeff Iliffe (Non-executive Director)</p> <p>Richard Illek (Non-executive Director)</p> <p>David Johnston (Senior Independent Non-executive Director)</p>	<p>Brokers</p> <p>Investec Bank plc 30 Gresham Street, London, EC2V 7QP.</p> <p>Public Relations</p> <p>DRD Partnership 35 King Street, London, WC2E 8JG.</p> <p>Auditors</p> <p>RSM UK Audit LLP Abbotsgate House, Hollow Road, Bury St Edmunds, Suffolk, IP32 7FA.</p> <p>Tax Advisors</p> <p>KPMG LLP Botanic House, 98–100 Hills Road, Cambridge, CB2 1JZ.</p> <p>Crowe Howarth LLP 124 South Florida Avenue, Suite 201, Lakeland, Florida 33801–4629.</p>
Secretary	Anita Steer	
Registered Office	<p>Northern Way, Bury St Edmunds, Suffolk, IP32 6NL.</p> <p>Tel: + 44 (0) 1284 702500.</p> <p>Email: cosec@treatt.com.</p>	<p>Solicitors</p> <p>Greene and Greene 80 Guildhall Street, Bury St Edmunds, Suffolk, IP33 1QB.</p>
Website	www.treatt.com	<p>Bankers</p> <p>HSBC Bank plc 140 Leadenhall Street, London, EC3V 4PS.</p> <p>Lloyds Banking Group Black Horse House, Castle Park, Cambridge, CB3 0AR.</p> <p>Bank of America 5th Floor, 101 E. Kennedy Boulevard, Tampa, FL 33602.</p>
Registered Number	01568937	<p>Registrars</p> <p>Link Asset Services The Registry, 34 Beckenham Road, Beckenham, Kent, BR3 4TU.</p>
Audit Committee	<p>Jeff Iliffe (Chairman)</p> <p>David Johnston</p> <p>Tim Jones</p>	<p>Share Price</p>  <p>Treatt plc's share price is available on www.ft.com.</p>
Remuneration Committee	<p>David Johnston (Chairman)</p> <p>Jeff Iliffe</p> <p>Richard Illek</p> <p>Tim Jones</p>	<p>Annual and interim reports are available on the Group's website (www.treatt.com).</p>
Nomination Committee	<p>Tim Jones (Chairman)</p> <p>Daemmon Reeve</p> <p>Anita Haines (until 26 January 2019)</p> <p>Jeff Iliffe</p> <p>Richard Illek</p> <p>David Johnston</p>	

Financial Calendar

2017/18

Financial year ended	30 September 2018
Results for year announced	27 November 2018
Annual Report and Financial Statements published	7 December 2018
Annual General Meeting	25 January 2019
Final dividend for 2018 goes 'ex-dividend'	7 February 2019
Record date for 2018 final dividend	8 February 2019
Last day for dividend reinvestment plan election	28 February 2019
Final dividend for 2018 paid	21 March 2019

2018/19

Interim results to 31 March 2019 announced	7 May 2019*
Interim dividend for 2019 goes 'ex-dividend'	4 July 2019*
Record date for 2019 interim dividend	5 July 2019*
Last day for dividend reinvestment plan election	25 July 2019*
Interim dividend for 2019 paid	15 August 2019*
Financial year ended	30 September 2019
Results for year to 30 September 2019 announced	26 November 2019*
Final dividend for 2019 paid	19 March 2020*

* These dates are provisional and may be subject to change



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