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20th November 2017

Andrew Ninian
Director, Stewardship and Corporate Governance
The Investment Association
Camomile Court
23 Camomile Street
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Dear Andrew

Thank you for your letter regarding the Investment Association's Public Register of listed companies who receive shareholder opposition of more than 20% on any resolution. As you observed, Treatt Plc received over 20% of shares cast against one of our resolutions at our AGM this year (2017) and consequently will be one of the companies included on the Register. Thank you for the opportunity to respond.

The Register is an initiative to be welcomed – greater transparency of decisions taken by Boards, and of the reasons behind them, is very much a good thing. Though much public attention has been focused of late on the Executive Director pay scales of FTSE 100 companies it is right, in my view, that listed companies whether FTSE Fledgling or FTSE All-Share, should offer equal transparency to their shareholders.

Founded in 1886, Treatt is a long-established provider of science-led ingredient solutions for the flavour, fragrance, beverage and consumer product industries. The Company came to the Unlisted Securities Market in 1989 and moved to a Primary Listing on the London Stock Exchange Main Market in 1996. When I took the Chair in February 2012 our market capital was around £35m. I was delighted to welcome Daemmon Reeve, then CEO of our USA subsidiary, onto the plc Board in May and into post as Group CEO in August of that year. Over the ensuing 5+ years we have progressively refreshed our Board into one with the skills, entrepreneurial vision and collegiate mindset to support an evolving strategy which has seen our market capital increase some 650% to its current level approaching £0.25Bn (November 2017). This gratifying performance has both pleased the Company's long-established shareholders and attracted new ones – including a number of institutional members of the Investment Association. 2017 has seen the Company move from the Fledgling to the SmallCap Index. To put this in context, however, the average market capital of a FTSE100 company is still approximately 80 times greater than that of Treatt.

Dialogue with all shareholders is important; understanding their views, ensuring they feel connected to their Company and our strategy for developing long term value, encouraging their interaction not only with me but with all the Board, I regard as fundamental to transparent governance. We particularly encourage shareholders to attend our AGM so that they ask, and demand answers from, any and all of the Board on matters to be resolved and so that we can update them on strategy, its development and our progress against it. As Richard Beddard, journalist at Interactive Investor, commented: "If I were to recommend one Annual General Meeting to go to in a year, it would be Treatt's. Lots of curious shareholders attend, a characteristic of long-established firms. Sometimes, the shareholders are former employees with long memories. They are a source of probing questions for management." Any institutional shareholders unable to attend the AGM are offered one to one visits so that they too can be kept as up to date as they wish.

Though there was, as there should be, robust debate over the resolutions put to the shareholders at our 2017 AGM not one attendee voted against the Company's Remuneration Policy. Of the 662 shareholders on our register at the time however, 10 had voted by proxy against this resolution. Of these ten shareholders three institutional holders accounted for 22.8% of the shares polled.

As a Board, we need to understand why a very few people – though some with significant shareholdings – feel so differently from the clear majority. Have we failed to explain our rationale adequately – that our strategy and the Company's evolution into new markets with new products, new technologies, new values, and new regulatory requirements has significantly changed the tasks we require our executives to perform? Or do they fundamentally disagree – do they feel that shareholders' long-term interests would be better served by different decisions on remuneration?

The right levels of remuneration and reward are important across all companies and, in Treatt's case, particularly so following a period of significant transition: substantial change in shareholdings as a near 30% family stake changed hands, the appointment of a new CEO, the evolution of a new Board, the adoption of employee-driven values, the development and implementation of a new strategy with its implications of new ways of working, new product developments, new manufacturing, new territories, new working practices and new risk management controls as the Company moves up the value chain from a commodities trader to becoming a trusted science-led source of ingredient solutions to some of the world's leading FMCG, Flavour and Fragrance businesses.

Headcount has increased, particularly amongst technical staff both research-led, customer facing and in the Company's expansion into China. Speciality extraction capacity in the Florida plant has been increased by 500% and, while expansion in the US market remains a major focus we are also extending our geographical footprint into other high growth markets in China, South-East Asia and India.

In the UK, our plant has had to become compliant with COMAH, a major piece of regulation, whilst new Health and Safety protocols have been adopted organisation-wide so that the topic is owned by all.

The Company's Kenyan acquisition has been transformed from loss making to a successful and profitable subsidiary of the business.

Through all this our sales volumes and our margins have been consistently driven upwards. Building is under way in Florida to increase production capacity to meet new demand whilst a ten-acre site has been procured and plans approved for new-build expansion in the UK.

In setting the levels of remuneration for the Executive Directors it has been important to take particular care to ensure that the base salaries paid are commensurate with the increased responsibility, and size and complexity of the roles. Performance incentives similarly must be motivational as well as stretching, must align with the interests of the shareholders whilst, critically, must also be seen as reasonable by the wider workforce and stakeholders. We must neither pay more than we need nor less than we must.

The chairman of the Remuneration Committee, Dr David Johnston (our Non-Executive Director with specialist global expertise in sugar reduction) has asked me to point out that, in assessing the reasonableness of the levels of remuneration to be offered, the Committee needed to be mindful of the quantum of any increase – even when clearly appropriate in reflecting increased job complexities and responsibilities – that such increase is (i) reasonable compared with those offered to others of the senior executive team (for instance that others whose roles similarly grow are treated in the same way) and the wider workforce (for instance that the ratio of the CEO's salary to the average salary of employees is remaining broadly stable), (ii) is reasonable when compared with our peer group of similar employers and (iii) accordingly may need to be spread over more than one year.

In seeking to understand the reasons why we had the response that we did last year we received feedback from one institutional shareholder that (i) our use of benchmarking data was inappropriate as it leads to upward only increases, (ii) that the quantum of the increase for our CEO was too high – it ought to be in line with the increase across all employees, (iii) the discretions retained by the Committee were too loose and (iv) as a matter of policy they would also therefore vote against the re-election to the Board of the chair of the Remuneration Committee. I profoundly disagree with this thinking on points (i), (ii) and (iv) but agree with point (iii).

My view on: -

- (i) is that it is important to understand the remuneration market – as a general rule of thumb if we were not offering remuneration more or less within 10%

+ or – against the median for our peer group we would want to question why not? Pay too much and we are wasting potential profit, pay too little and we risk key staff being poached. Neither is in the shareholders' long-term interests;

- (ii) is that the quantum of the increase needs to reflect the job that is being done – we should not, as employers, demand more work of any employee, Chief Executive or otherwise, if we are not prepared to pay for it. It would, however, be odd if there were not others across the Company for whom similar pay rises had been offered – but it would be quite wrong to presume that everybody was eligible for such increments. A useful safety check at Treatt has been that the ratio of the base salary of the CEO at Treatt to the average of all UK employees remains at around 10 times. There is share participation for all staff both in the UK and USA and an all-staff bonus scheme ensuring that everybody shares in success;
- (iii) we had recently asked the CEO to relocate from the USA to the UK and, there being uncertainty around several related costs, we resolved that we needed discretion to address such issues if needs be. Perhaps we were rather naïve as a Fledgling Business and amongst the first companies to report against the new regime, but we ought, on reflection to have been more specific as to the context in the text of our report. We have now removed this discretion; and
- (iv) we have taken considerable effort and time to assemble the skillset on our Board that the Company needs – to propose that we should lose a key expert because a shareholder dislikes the decisions of a committee he chairs, especially if that view is shared by very few other shareholders, may risk dire consequences to the Company and the long-term interests of its shareholders. I would prefer that where holder(s) propose punitive voting to oppose the re-election of one of the Board they would be willing to have a telephone call with me first. I would want the opportunity to discuss the pros and cons of the particular motion, to discuss the specific contribution and value brought to the Company by the director in question and, if unable to reach agreement, I would hope that the holder(s) would be willing to defer to the views of the majority.

We have, during the year, engaged specialist remuneration consultants, FIT, both to help us ensure our policies are appropriate for a member of the All-Share Index, that we understand the concerns our new shareholders have and that we address them appropriately. FIT has helped us in ensuring the peer group of companies against which we should compare our salary levels is appropriate. For instance, rather than looking across companies of a similar market capital at any one time, we are instead averaging our market capital over a 12-month period so that we do not allow our rapid increase in recent shareholder value to mislead us in relative pay scales. Similarly, we apply a turnover filter to ensure that we compare companies on similar multiples to ourselves.

Considering all the above it is my firm belief that in setting our remuneration as we do, we are acting absolutely in good faith in the best long-term interests of the Company and our shareholders as well as our employees and wider stakeholders. As such, though happy to discuss matters with all shareholders, I am unable to accommodate any wishes, however well-intentioned or strongly put, which go against those interests.

Yours sincerely

A handwritten signature in black ink, appearing to read 'T R Treleaven Jones', with a long horizontal flourish extending to the right.

T R Treleaven Jones
Chairman