

TREATT PLC

UPDATE ON ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS

Treatt Plc is preparing for the adoption of International Financial Reporting Standards ("IFRS") as its primary accounting basis for the year ending 30 September 2006. As part of this transition, Treatt Plc is today presenting unaudited financial information prepared in accordance with IFRS for the year ended 30 September 2005.

This announcement explains how the Group's previously reported UK GAAP financial performance and position are reported under IFRS. It provides reconciliations from UK GAAP to IFRS for the following:

- the Group's unaudited consolidated income statement for the year ended 30 September 2005;
- the Group's unaudited consolidated statement of recognised income and expense for the year ended 30 September 2005;
- the Group's unaudited consolidated balance sheet as at 30 September 2005;
- the Group's unaudited consolidated cash flow statement for the year ended 30 September 2005;
- the Group's unaudited consolidated balance sheet as at 1 October 2004.

The principal changes to Treatt Plc's reported financial information under UK GAAP arising from the adoption of IFRS are as a result of the:

1. requirement to recognise defined benefit pension scheme liabilities and change the way gains and losses on the R.C. Treatt & Co. Limited pension scheme are recognised;
2. requirement to recognise Treatt Plc dividend liabilities only after they have been formally approved or paid;
3. requirement to account for the cost of share-based payments relating to employee share option schemes;
4. requirement to recognise foreign exchange (FX) differences on foreign currency net investments in a separate foreign exchange reserve;
5. requirement to treat computer software previously included in tangible fixed assets as an intangible fixed asset.

Richard Hope, Group Finance Director of Treatt Plc, commented:

"The unaudited financial information provided today shows how IFRS impacts Treatt Plc's recent results in advance of its adoption in the 2005/6 financial year. As can be seen, there has been no material effect on the Group's profit for the period, whilst the most significant change is that Treatt Plc now recognises a pension liability net of deferred tax at 30 September 2005 of £2,267,000 (2004: £2,061,000) which has been offset by a reduction in dividends payable of £949,000 (2004: £893,000)"

Enquiries

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Group Finance Director

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INTRODUCTION

Treatt Plc is preparing for the adoption of International Financial Reporting Standards ("IFRS") as its primary accounting basis following adoption of Regulation No. 1606/2002 by the European Parliament on 19 July 2002.

The financial information contained on pages 5 to 9 has been prepared in accordance with applicable International Financial Reporting Standards ("IFRS"), including International Accounting Standards ("IAS") and interpretations issued by the Standing Interpretations Committee ("SIC") of the International Accounting Standards Board ("IASB") and its committees. These standards are subject to ongoing amendment by the IASB and subsequent endorsement by the European Commission and are therefore subject to possible change. As a result, information contained within these statements may require updating at a future date. Therefore it is possible that the comparative information included in the first complete set of IFRS financial statements as at 30 September 2006 may not be consistent with the disclosure below.

The financial information has been prepared by management using their best knowledge and judgement of the expected standards and interpretations of the IASB, facts and circumstances, and accounting policies that will be applied when the Company prepares its first complete set of IFRS financial statements as at 30 September 2006. The first financial report prepared under IFRS will be for the six months ending 31 March 2006.

This announcement explains how the Group's previously reported UK GAAP financial performance and position are reported under IFRS. It provides, on an IFRS basis, reconciliations from UK GAAP to IFRS for the following:

- the Group's unaudited consolidated income statement for the year ended 30 September 2005 (previously the profit and loss account);
- the Group's unaudited consolidated statement of recognised income and expense for the year ended 30 September 2005 (previously the statement of recognised gains and losses);
- the Group's unaudited consolidated balance sheet as at 30 September 2005;
- the Group's unaudited consolidated cash flow statement for the year ended 30 September 2005;
- the Group's unaudited consolidated balance sheet as at 1 October 2004.

The financial information presented is unaudited.

Attention is drawn to the fact that under IFRS, only a complete set of financial statements comprising a balance sheet, income statement, statement of changes in equity, cash flow statement, together with comparative information and explanatory notes, can provide a fair presentation of the Company's financial position, results of operations and cash flows.

Basis of preparation

The financial information presented has been prepared based on the adoption of IFRS, including IAS and interpretations issued by the IASB and its committees as interpreted by any regulatory bodies relevant to the Group. These are subject to ongoing amendment by the IASB and subsequent endorsement by the European Commission and are therefore subject to change. As a result, information contained herein may need to be updated for any subsequent amendment to IFRS required for first time adoption, or any new standards that the Group may elect to adopt early.

IFRS 1 exemptions

IFRS 1, "First-time Adoption of International Financial Reporting Standards" sets out the procedures that the Group must follow when it adopts IFRS for the first time as the basis for preparing its consolidated financial statements. The Group is required to establish its IFRS accounting policies as at 30 September 2005 and, in general, apply these retrospectively to determine the IFRS opening balance sheet at its date of transition, 1 October 2004.

However, IFRS 1 provides a number of optional exceptions to this general principle. The most significant of these are set out below, together with a description in each case of the exception adopted by the Group.

- (1) *IFRS 2 - "Share-based payments"* – IFRS 2 has been applied to all grants of equity instruments after 7 November 2002 that had not vested at 1 January 2005 and not to any grants prior to this date.
- (2) *"Business Combinations"* – in accordance with IFRS 1, the Group has chosen not to restate business combinations that took place before the date of transition (1 October 2004).
- (3) *Translation of foreign subsidiaries* – the Group has chosen *not* to reduce all translation reserves arising prior to transition into IFRS to a nil balance. Consequently, the newly created 'Foreign Exchange Reserve' includes all foreign exchange differences which arose prior to the introduction of IFRS.

Presentation of financial information

The primary statements within the financial information contained in this document have been presented in accordance with IAS 1, "Presentation of Financial Statements". However, this format and presentation may require modification in the event that further guidance is issued and as practice develops.

KEY IMPACT ANALYSIS

The analysis below sets out the most significant adjustments arising from the transition to IFRS.

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".

Defined Benefit Pension Scheme

In accordance with IAS 19, "Employee Benefits", the deficit (net of deferred tax) in the defined benefit pension scheme for certain UK employees is recognised as a liability of the Group under non-current liabilities. This was previously disclosed as a note to the financial statements under the transitional arrangements under FRS17 in accordance with UK GAAP.

In addition, the service cost and expected return on assets net of interest on scheme liabilities is 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 is reflected as a gain or loss in the Statement of Recognised Income and Expense.

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. This expense, which is in relation to employee share option schemes for staff in the UK and US, is recognised over the vesting period of the scheme.

IFRS 2 has been applied to all options granted after 7 November 2002 and not fully vested by 1 January 2005. The Group has adopted the Black Scholes model for the purposes of computing fair value of options under IFRS.

Post Balance Sheet Events and Dividends

IAS 10, "Events after the Balance Sheet Date" requires that final dividends declared 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". Instead, final dividends for Treatt Plc should only be recognised as a liability once formally approved at the Annual General Meeting. Furthermore, interim dividends, in accordance with ICAEW Technical Release 57/05, are no longer recognised as a liability until paid.

The interim and final dividends in relation to the financial years ended 30 September 2004 and 2005 of £893,000 and £949,000 have therefore been reversed in the respective balance sheets.

Effect of Changes in Foreign Exchange Rates

Under IAS 21, "The Effects of Changes in Foreign Exchange Rates", cumulative translation differences which are recognised in the Statement of Recognised Income and Expense 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 such foreign exchange differences arising in relation to the Group's US subsidiary, Treatt USA, since its formation in 1990, have been transferred from the 'Profit and Loss Reserve' to this newly created 'Foreign Exchange Reserve'.

Computer Software

In accordance with IAS 38 "Intangible Assets" computer software is now required to be disclosed as a class of intangible assets rather than be included as part of tangible fixed assets as was the case under UK GAAP.

FINANCIAL INFORMATION

Income statement

Reconciliation of UK GAAP consolidated profit and loss account to IFRS consolidated income statement for the year ended 30 September 2005. This reconciliation is presented in the format required by IFRS 1 and is unaudited.

The impact of deferred and current taxes on each adjustment is shown within the relevant column.

TREATT PLC

UNAUDITED INCOME STATEMENT (IFRS FORMAT) YEAR ENDED 30 SEPTEMBER 2005

	UK GAAP 30/09/2005 £'000	IAS 19 Employee Benefits £'000	IFRS 2 Share Based Payments £'000	IFRS 30/09/2005 £'000
Revenue	32,521			32,521
Cost of sales	(21,952)			(21,952)
Gross profit	10,569	0	0	10,569
Administrative expenses	(7,023)	15	(12)	(7,020)
Group operating profit	3,546	15	(12)	3,549
Finance revenue	176			176
Finance costs	(266)	(53)		(319)
Profit before tax	3,456	(38)	(12)	3,406
Taxation	(1,082)	12		(1,070)
Profit for the year attributable to equity shareholders	2,374	(26)	(12)	2,336

UNAUDITED STATEMENT OF RECOGNISED INCOME AND EXPENSE

(IFRS FORMAT)

YEAR ENDED 30 SEPTEMBER 2005

Profit for the financial year	2,374	(26)	(12)	2,336
Currency translation on foreign currency net investment	123			123
Actuarial loss on defined benefit pension scheme		(257)		(257)
Deferred tax on actuarial loss		77		77
Total recognised net income for the period	<u>2,497</u>	<u>(206)</u>	<u>(12)</u>	<u>2,279</u>

Earnings Per Share

Profit after tax	2,374	2,336
No. of shares - basic	10,024,533	10,024,533
No. of shares - diluted	10,050,258	10,050,258
Earnings per share - basic	23.7p	23.3p
Earnings per share - diluted	23.6p	23.2p

Balance sheet

Reconciliation of UK GAAP to IFRS consolidated balance sheet as at 30 September 2005. This reconciliation is presented in IFRS format and is unaudited.

The impact of deferred and current taxes on each adjustment is shown within the relevant column.

TREATT PLC

UNAUDITED BALANCE SHEET

(IFRS FORMAT)

AS AT 30 SEPTEMBER 2005

	UK GAAP 30/09/2005	IAS 19 Employee Benefits	IAS 10 Events After Balance Sheet Date	IFRS 2 Share-Based Payments	IAS 21 Effect of Changes in FX Rates	IAS 38 Intangible Assets	IFRS 30/09/2005
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
ASSETS							
Non-current assets							
Intangible assets						730	730
Property, plant and equipment	9,374					(730)	8,644
Deferred tax		521					521
	9,374	521	0	0	0	0	9,895
Current assets							
Inventories	11,395						11,395
Trade and other receivables	5,718						5,718
Cash and cash equivalents	297						297
	17,410	0	0	0	0	0	17,410
LIABILITIES							
Current liabilities							
Bank loans and overdrafts	(144)						(144)
Trade and other payables	(4,883)		949				(3,934)
Corporation tax payable	(589)						(589)
	(5,616)	0	949	0	0	0	(4,667)
Net current assets	11,794	0	949	0	0	0	12,743
Non-current liabilities							
Bank loans	(2,179)						(2,179)
Post-employment benefits		(3,239)					(3,239)
Deferred tax liabilities	(451)	451					0
	(2,630)	(2,788)	0	0	0	0	(5,418)
Net assets	18,538	(2,267)	949	0	0	0	17,220
SHAREHOLDERS' EQUITY							
Called up share capital	1,029						1,029
Share premium account	2,143						2,143
Own shares in share trust	(625)						(625)
Employee share option reserve				14			14
Foreign exchange reserve					(699)		(699)
Retained earnings	15,991	(2,267)	949	(14)	699		15,358
Total Shareholders' Equity	18,538	(2,267)	949	0	0	0	17,220

Cash flow statement

Reconciliation of UK GAAP to IFRS consolidated cash flow statement for the year ended 30 September 2005. This reconciliation is presented in IFRS format and is unaudited.

TREATT PLC

UNAUDITED CASH FLOW STATEMENT

(IFRS FORMAT)

YEAR ENDED 30 SEPTEMBER 2005

	UK GAAP 30/09/2005 £'000	Opening Loan Balance £'000	Repayment on Loan £'000	FX on Loans £'000	IFRS 30/09/2005 £'000
Cash flow from operating activities					
Profit before taxation	3,456				3,456
Adjusted for:					
Foreign exchange gain/(loss)	49			55	104
Depreciation of property, plant and equipment	963				963
Loss on disposal of property, plant and equipment	135				135
	4,603	0	0	55	4,658
Changes in working capital:					
Decrease/(increase) in inventories	(3,040)				(3,040)
Decrease/(increase) in trade and other receivables	288				288
Increase/(decrease) in trade and other payables	642				642
Cash generated from operations	2,493	0	0	55	2,548
Tax paid	(812)				(812)
Net cash from operating activities	1,681	0	0	55	1,736
Cash flow from investing activities					
Purchase of property, plant and equipment	(862)				(862)
Cash flow from financing activities					
Repayment of bank loans			(144)		(144)
Dividends paid	(895)				(895)
Net acquisition of own shares by Share Trust	(347)				(347)
	(1,242)	0	(144)	0	(1,386)
Net decrease in cash and cash equivalents	(423)	0	(144)	55	(512)
Cash and cash equivalents at beginning of period	(1,603)	2,412			809
Cash and cash equivalents at end of period	(2,026)	2,412	(144)	55	297

The effect of transition on the cash flow noted above relates to changes in the composition of cash and cash equivalents as detailed below:

30/09/2005
£'000

Reconciliation of cash flow for period to 30 September 2005

Net debt under UK GAAP	(2,026)
Long term loans excluded from cash and cash equivalents	2,323
Cash and cash equivalents under IFRS	297
Cash and cash equivalents consist of:	
Cash at bank	297

Opening balance sheet

Reconciliation of UK GAAP to IFRS consolidated balance sheet as at 1 October 2004. This reconciliation is presented in IFRS format and is unaudited. The impact of deferred and current taxes on each adjustment is shown within the relevant column.

TREATT PLC

UNAUDITED BALANCE SHEET

(IFRS FORMAT)

AS AT 1 OCTOBER 2004

	UK GAAP 30/09/2004	IAS 19 Employee Benefits	IAS 10 Events After Balance Sheet Date	IFRS 2 Share-Based Payments	IAS 21 Effect of Changes in FX Rates	IAS 38 Intangible Assets	IFRS 30/09/2004
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
ASSETS							
Non-current assets							
Intangible assets						936	936
Property, plant and equipment	9,536					(936)	8,600
Deferred tax		364					364
	9,536	364	0	0	0	0	9,900
Current assets							
Inventories	8,355						8,355
Trade and other receivables	6,007						6,007
Cash and cash equivalents	809						809
	15,171	0	0	0	0	0	15,171
LIABILITIES							
Current liabilities							
Bank loans and overdrafts	(141)						(141)
Trade and other payables	(4,200)		893				(3,307)
Corporation tax payable	(251)						(251)
	(4,592)	0	893	0	0	0	(3,699)
Net current assets	10,579	0	893	0	0	0	11,472
Non-current liabilities							
Bank loans	(2,271)						(2,271)
Post-employment benefits		(2,944)					(2,944)
Deferred tax liabilities	(519)	519					0
	(2,790)	(2,425)	0	0	0	0	(5,215)
Net assets	17,325	(2,061)	893	0	0	0	16,157
SHAREHOLDERS' EQUITY							
Called up share capital	1,029						1,029
Share premium account	2,143						2,143
Own shares in share trust	(278)						(278)
Employee share option reserve				2			2
Foreign exchange reserve					(822)		(822)
Retained earnings	14,431	(2,061)	893	(2)	822		14,083
Total Shareholders' Equity	17,325	(2,061)	893	0	0	0	16,157