Annual Report & Financial Statements **2016**

TREATT

MAKING THE WORLD TASTE BETTER

THE GROUP

WE ARE A TRUSTED INGREDIENTS MANUFACTURER AND SOLUTIONS PROVIDER TO THE GLOBAL FLAVOUR, FRAGRANCE AND CONSUMER GOODS MARKETS FROM OUR BASES IN THE UK, THE US, CHINA AND KENYA.

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

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

Everyone from logistics, HR, finance, operations and research and development to sales, purchasing, marketing, planning, IT and procurement work together to ensure we're the sustainable partner of choice for our international customer base.

The passion and expertise for our industry is visible in every interaction with Treatt, which is why our customers rely on our specialists to deliver innovative ingredient solutions that will drive commercial results.

THE REPORT

WHAT MAKES TREATT SPECIAL 02

Discover how our global family of experts work together to deliver unique solutions that exceed our customers' expectations.

WHERE WE'RE HEADING 04

Learn more about how we're building on our 130 years of expertise and taking our company to exciting new areas across the globe.

OUR PRODUCT INNOVATIONS 06

Explore our growing product range and understand how our expertise drives global trends across a number of food and beverage categories.

"The passion and expertise for our industry is visible in every interaction with Treatt"

OVERVIEW

CORPORATE GOVERNANCE

FINANCIAL STATEMENTS

WHAT MAKES TREATT SPECIAL

CUSTOMERS FROM OVER 90 COUNTRIES CHOOSE TO WORK WITH TREATT AS WE STAND APART FROM THE COMPETITION FOR ALL OF THE RIGHT REASONS.

PEOPLE

The success of our business is built on the skills, knowledge and personalities of our people – the central pillar to our future development. We collectively believe in the company's vision and bring our absolute best to the industry-leading work we do every day. This commitment shines through in every interaction with the business.

Our brightest technical minds take pride in developing the ingredient solutions of the future and are supported by a global operational infrastructure that delivers results.

Strategic recruitment, internal training and innovative personal staff development have meant our people are best-placed to take Treatt to the next level. ***With over 370 experts working across the globe,*** we deliver an integrated service with all departments pulling together towards a common goal.

By embodying effective teamwork, our customers feel the benefit of partnering with a company that works as one, with momentum and enthusiasm.

"Our ingredient solutions are the result of over a century of knowledge and innovation"

PASSION

As shareholders, as well as employees, we have a vested interest in the success of the company which has a palpable impact on the way we operate.

The care we take in our work is evident everywhere you look at Treatt. We collectively strive for excellence with an energy and dedication our customers appreciate.

By working in partnership, we're able to fulfil needs in a multitude of ways, whether we're developing a new flavour concept, providing 24/7 regulatory support or new product development marketing consultancy.

“Our brightest technical minds take pride in developing the ingredient solutions of the future”

PRODUCTS

Our ingredient solutions are the result of over a century of knowledge and innovation. We have a diverse product portfolio that enables us to meet any customer specification.

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.

With everything from 100% natural ingredients made from the named fruit, bespoke blends, price-stable synthetics to impactful aroma chemicals, we manufacture and supply a range of solutions to our customers across the globe.

Dedicated global product managers lead the development and promotion of their categories, sharing their expertise with colleagues and customers alike. By collaborating internally with everyone from sales and purchasing to marketing and R&D, our technical staff have developed a roadmap for the evolution of each category to ensure its future growth and success.

By bringing this internal structure to our portfolio, we can work quickly and effectively, ensuring we're best placed to serve our growing customer base.

PROCESSES

Our reputation has been built over years of consistent results. Integrity cannot be imitated or bought, which is why our robust processes are paramount.

We are governed by the highest set of industry standards which gives our customers peace of mind that they're working with people and products they can trust.

Travelling the world and building personal relationships with our processors and farmers, gives us first-hand detailed knowledge of our supply chain which is invaluable to our customers.

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

Expert planning, operations and shipping staff work together to deliver a seamless service that meets every regulatory requirement, enabling us to get things right first time.

WHERE WE'RE HEADING

THE COMPANY CONTINUES TO SEE SUSTAINABLE LONG TERM GROWTH AS A RESULT OF THE FOCUSED STRATEGY AND THE DEDICATION OF EVERY EMPLOYEE ACROSS THE GLOBE.

> "There's never been a more exciting time to work for Treatt"

OVERVIEW

OUR BUSINESS

We are on track with plans to relocate our UK manufacturing operations to a purpose-built site, just four miles from our existing location. This will be one of the most significant developments for the company in the last 50 years and will revolutionise almost every aspect of our business. It will enable us to excite our customers even more, improve efficiency and, we believe, accelerate our growth.

This year we have also improved our internal structures to make best use of the wealth of knowledge throughout the business. Dedicated product category managers, customer insight groups, project teams and department champions are just a few examples of how we're collaborating, sharing knowledge and improving our service.

As our biggest strategic asset, we continue to invest in our people. Our vibrant culture attracts the very best people in the industry and once part of our growing team, we further cultivate talent with a tailored training and development program that will help them to reach their potential.

Finally, we are also investing more heavily in our marketing operations. Responsible for all external communication, our marketing team work closely with our R&D, technical and sales teams to ensure our efforts are strategic, integrated and effective.

OUR INDUSTRY

Ours is an exciting and ever-evolving industry that will continue to grow. Not ones to rest on our laurels, we are committed to continuous improvement and have a clear roadmap that will enable us to take advantage of the significant market opportunities ahead.

The global beverage market is valued at approximately $1300 bn. As this diverse and challenging market continues to grow, we look to increase our market share by working with organisations and markets where we can add real value. In addition to growing our notable presence in the citrus market, we seek out new avenues for strategic growth.

> **"The global RTD tea market was worth £50.1bn last year, up from £39bn the year before"**

SUGAR REDUCTION

Sugar reduction has been a key focus for us on a global level and will continue to be for the foreseeable future. The tax announced in the UK's 2016 Budget has truly intensified the need for beverage companies to reduce sugar levels by 2018. This is part of a global story where all major brands look to improve the health credentials of their portfolio.

- **Sugar intake from soft drinks has been reduced by 16.2% since 2012 and 17% from carbonates**
- **45% of carbonated drinks in the UK are labelled as low/no calorie**

We continue to invest in this area of our business working in partnership with our customers to ensure we're supporting their strategic, long term objectives when it comes to sugar reduction.

TEA

Our in-house tea capabilities are going from strength to strength as more members of the team progress through their sommelier training and we look to launch new and innovative products. A cross-functional global team collaborate with customers to develop their future presence in tea, whether they're looking for a re-formulated ready to drink iced tea or a bespoke blend for a new product launch.

OUR PRODUCT
INNOVATIONS

WE OFFER CUTTING-EDGE PRODUCTS THAT HELP OUR CUSTOMERS TO STAND OUT IN INCREASINGLY CHALLENGING AND DYNAMIC MARKETPLACES.

Our solutions range from citrus, essential and vegetable oils to aroma chemicals and speciality ingredients which are used by flavour houses and consumer goods companies across the world.

Our business is designed to deliver consistent, quality ingredient solutions to our customers, and is driven by anticipating and listening to their needs. In doing so, we leverage our position as a key supplier to major global multi-national corporations. Key to the success of our business model is our experience and knowledge of the ingredients we handle, and our focus on the future.

> **“Our business is designed to deliver consistent, quality ingredient solutions”**

SECURE SOURCING

Our global purchasing team have unrivalled market knowledge which our customers recognise and trust. This enables us to offer stable, sustainable and transparent supply chains that can be traced back to the source.

We travel a lot and invest in our supplier relationships to ensure our fingers are always on the pulse of what's going on in the markets and the wider industry. Visiting growers and processors across the globe means we have the latest information from those in the know.

Working directly with growers and processors across the world guarantees the finest quality raw materials and standards of production.

By sharing these invaluable insights with our customers directly, via our market intelligence report or on our website, we help our customers to make the best choices to suit their business today, and in the future.

Confident in our rigorous quality assurance, composition and contaminant analysis, customers trust our products and people to deliver every time.

RESPONSIBLE MANUFACTURING

From our facilities in the UK, US and Kenya, we create consistently high quality products that are sold in over 90 countries. With an unrelenting focus on health and safety, we manufacture as well as process sourced material, which gives us flexibility that is truly valued by our customers. We are certified against the British Retail Consortium's (BRC) Global Standard for Food Safety which further illustrates our ongoing commitment to maintaining the highest standards.

Through the fractional distillation of our essential oils, we can isolate a range of key natural volatiles that allows us to produce a range of solutions in a variety of pack sizes. We have inventory across four continents, which allows us to readily supply our products from various locations.

PROFESSIONAL PARTNERS

Working in collaboration with our customers results in the most exciting and profitable product innovations. By sharing expertise, live on the workbench, we create partnerships that are mutually beneficial and long-lasting.

Our regulatory specialists' knowledge is invaluable to our customers, who rely on Treatt for quality information they can trust.

The global salesforce act as customer champions at all times, ensuring that wider business decisions are made reflecting the interests of those we serve.

FUTURE FOCUS

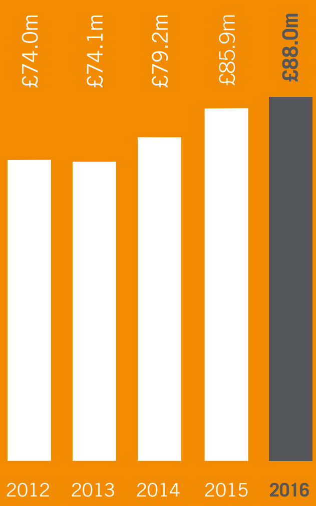
We have an established heritage that grounds us but also gives us the foundations from which we can confidently launch ourselves into what's ahead. We are committed to identifying and understanding market trends driven by complex global socio-economic factors which have an impact on our industry.

Experts across our business development, R&D, applications and marketing departments work together to drive effective new product development, ensuring we stay relevant to our customers. Our strategic approach to global new product development results in a portfolio of appealing products which give customers a true commercial advantage.

2016 REVIEW

Financial Performance

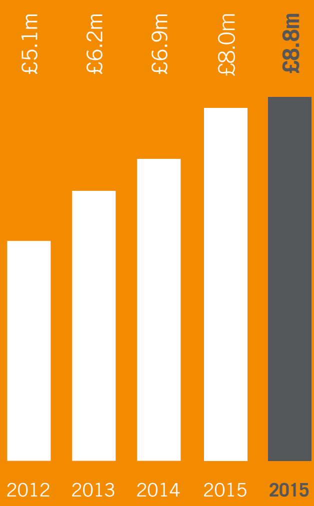
Revenue



£88.0m

Revenue represents the total sales of all businesses in the Group, and reflects both underlying business growth as well as being impacted by movements in raw material prices.

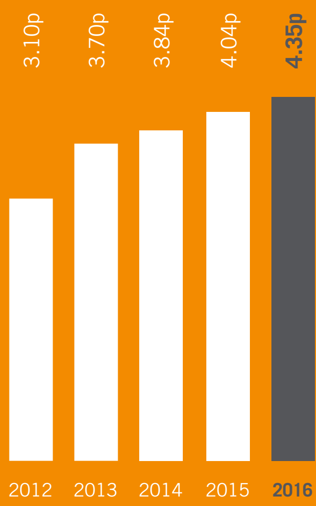
Adjusted Profit Before Tax*



£8.8m

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

Dividends Per Share** (pence)

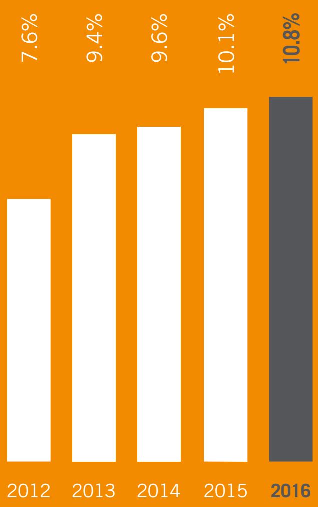


4.35p

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

Key Performance Indicators

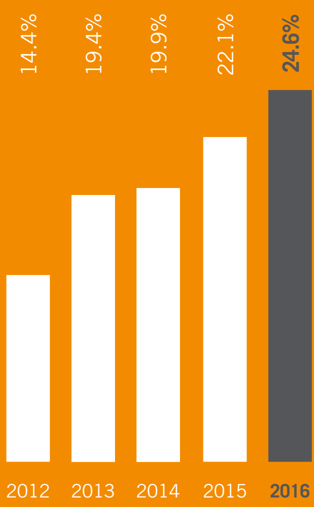
Net Operating Margin



10.8%

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

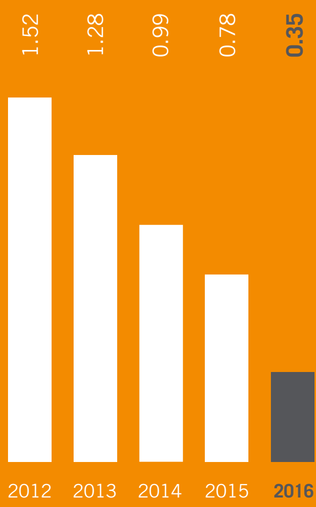
Return on Capital Employed



24.6%

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

Average Net Debt to EBITDA***



0.35

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

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

** The dividend per share shown relates to the interim dividend declared and final dividend proposed, both of which are paid after the year end and accounted for in the subsequent financial year.

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

OVERVIEW

Group Five Year Trading Record

	2012 £'000	2013 £'000	2014 £'000	2015 £'000	**2016 £'000**
INCOME STATEMENT					
Revenue	74,009	74,097	79,189	85,934	**88,040**
EBITDA[1]	6,891	8,278	9,022	10,109	**11,038**
Operating profit	5,628	6,938	7,628	8,690	**9,549**
Adjusted[2] profit before taxation	5,060	6,227	6,904	7,950	**8,846**
Growth in adjusted[2] profit before taxation	*(20.6%)*	*23.1%*	*10.9%*	*15.2%*	***11.3%***
Exceptional items	(598)	(1,093)	(1,402)	(174)	**(553)**
PROFIT BEFORE TAXATION	4,462	5,134	5,502	7,776	**8,293**
Taxation	(1,390)	(1,655)	(1,553)	(1,786)	**(2,144)**
Profit for the year attributable to owners of the Parent Company	3,072	3,479	3,949	5,990	**6,149**
BALANCE SHEET					
Goodwill	1,080	1,075	1,075	1,075	**2,727**
Other intangible assets	718	684	726	661	**637**
Property, plant and equipment	11,543	11,718	10,994	10,998	**11,361**
Net deferred tax (liability)/asset	(594)	(723)	(611)	(390)	**325**
Non-current trade and other receivables	586	586	586	—	**—**
Current assets	38,053	38,340	43,590	45,045	**54,435**
Current liabilities	(17,345)	(12,484)	(16,005)	(13,481)	**(16,388)**
Non-current trade and other payables	(23)	(23)	(23)	—	**—**
Non-current bank loans	(5,469)	(8,889)	(7,857)	(7,065)	**(7,755)**
Post-employment benefits	(838)	(1,589)	(2,529)	(2,959)	**(7,401)**
Non-current derivative financial instruments	(1,033)	(577)	(511)	(699)	**(754)**
Non-current Redeemable loan notes (net)	(675)	(675)	(675)	—	**—**
Total equity	26,003	27,443	28,760	33,185	**37,187**
CASH FLOW					
Cash generated from operations	1,482	9,250	3,528	8,667	**11,728**
Taxation paid	(1,279)	(649)	(1,552)	(1,469)	**(2,022)**
Net interest paid	(618)	(714)	(724)	(740)	**(703)**
Dividends paid	(1,490)	(1,585)	(1,899)	(1,978)	**(2,095)**
Additions to non-current assets net of proceeds	(2,787)	(1,578)	(746)	(1,027)	**(788)**
Acquisition of interests in joint ventures or subsidiaries	—	(9)	—	—	**(1,676)**
Net sale/(purchase) of own shares by share trust	(306)	91	91	180	**265**
Other	43	(151)	12	(204)	**(208)**
Movement in net debt	(4,955)	4,655	(1,290)	3,429	**4,501**
Total net debt	(12,949)	(8,294)	(9,584)	(6,155)	**(1,654)**
RATIOS					
Net operating margin[3]	7.6%	9.4%	9.6%	10.1%	**10.8%**
Return on capital employed[4]	14.4%	19.4%	19.9%	22.1%	**24.6%**
Average net debt to EBITDA[5]	1.52	1.28	0.99	0.78	**0.35**
Adjusted[2] basic earnings per share	6.88p	8.64p	9.95p	11.94p	**12.84p**
Growth in adjusted[2] basic earnings per share	*(19.1%)*	*25.6%*	*15.2%*	*20.0%*	***7.5%***
Dividend per share[6]	3.10p	3.70p	3.84p	4.04p	**4.35p**
Dividend cover (adjusted to exclude exceptionals)[6]	2.22	2.33	2.58	2.94	**2.94**
Net assets per share	49.6p	52.4p	55.0p	63.0p	**71.0p**

Notes on calculations:

1 EBITDA is calculated as profit before interest, tax, depreciation, amortisation and exceptional items.
2 All adjusted measures exclude exceptional items – see note 8.
3 Operating profit divided by revenue.
4 Operating profit divided by total equity plus net debt.
5 Average of net debt at start and end of financial year divided by EBITDA.[1]
6 The dividend per share shown relates to the interim dividend declared and final dividend proposed, both of which are paid after the year end and accounted for in the subsequent financial year.

CHAIRMAN'S
STATEMENT

TIM JONES
CHAIRMAN

AN EXCELLENT YEAR WITH ADJUSTED* PROFIT BEFORE TAX UP 11% TO £8.8M AND STRONG CASH CONVERSION ALLOWING NET DEBT TO FALL TO £1.7M FROM £6.2M

7.7% Increase in dividends

RESULTS

It is particularly pleasing to report that the Group results this year have seen meaningful progress not only in respect of our financial performance but on non-financial objectives too. Revenue has grown by 2.5% to £88.0m (2015: £85.9m) resulting in an increase in adjusted* profit before taxation of 11% to £8.8m compared with £8.0m last year. At 12.84p, adjusted basic earnings per share have improved 7.5%.

Strong cash performance this year has seen the Group's net debt continue to fall to £1.7m (2015: £6.2m). This has been achieved despite the marked increases in key raw material costs, such as orange oil, and the depreciation of Sterling against the US Dollar. In the last 2 years net debt has fallen by £7.9m (82%) (2014: £9.6m).

The Group's strategy to manage foreign exchange risk has prevented currency fluctuations during the year from having a more material impact on the net results. The overall net impact of movements in foreign exchange rates was a reduction in profit before tax of approximately £0.5m, more details on which can be found in the Financial Review on page 17.

DIVIDENDS

It is proposed to pay a final dividend of 3.00p (2015: 2.76p), increasing the total dividend for the year by 7.7% to 4.35p (2015: 4.04p). I am also pleased to say that following a review of our dividend timetable we have brought forward the payment dates each year for interim and final dividends to March and August respectively (having previously been April and October). If approved by shareholders at the forthcoming AGM, the final dividend will therefore be payable on 23 March 2017 to all shareholders on the register at close of business on 17 February 2017. Shareholders who wish to participate in the dividend re-investment plan for this and future dividends should elect to do so by 26 February 2017.

STRATEGIC OVERVIEW

In recent years our efforts have been focused on driving the business to deliver sustainable growth of profits over the long term. We have prioritised investment in those areas which will reap the greatest benefits for the Group, investing greater resources on innovation, marketing, staff development, management training and more recently on growing our activities in China.

The developments we have implemented will help us service our customers with more innovative products and improve our market positioning to better serve the rapidly evolving desires of consumers.

Sales have grown by 2.5% but the proportion of higher value-added products has helped further improve gross margins, resulting in another record year for the Group; we will continue to develop and refine our product mix by bringing ever greater focus to the market segments to which they are offered. It is important that we continue to grow revenue in the right way by increasing the proportion of value-added products in our sales mix and I believe these results demonstrate strong continuing progress in this area.

UK SITE RELOCATION

In the UK we have been on our existing site at Bury St Edmunds, Suffolk, since 1971 and although we have continuously adapted the site over the years, it is no longer fit for purpose. The site is fragmented as we operate out of six buildings; this neither provides us with the right environment to maximise our efficiencies and communication with each other nor with the evolving regulatory environment in which we operate. At the same time our growing business needs to have a site which is fit for purpose for the future where we can quickly adapt to an ever changing environment and help us attract the right talent into the business in order to drive innovation in our markets. I can therefore confirm that we continue to progress our plans to relocate our UK business, more details of which can be found in the Financial Review on page 18, and hope to be in a position to make a further announcement on this in the near future.

The success of our US operation has meant that it has also outgrown its existing premises and will need to invest in its site in the coming year to build on the many opportunities we see. Plans are therefore well under way in both the UK and US and, as our Chief Executive comments in his report, have involved detailed consultation with our employees to ensure that our new site in the UK and our expanded site in the US will serve the needs of the business in the long term.

CORPORATE GOVERNANCE

Ian Neil left us as a Non-executive Director in January of this year and I would like to take this opportunity to thank Ian for all the hard work and support he gave the business over the years and we wish him the very best for the future. In June I was very pleased to welcome Richard Illek to the Board as a Non-executive Director. Richard has recently retired from PepsiCo where he worked for 28 years. During Richard's time at PepsiCo he undertook a number of operational, technical and manufacturing roles. Richard brings a wealth of experience and industry knowledge to us and we are delighted to have him on our Board.

We regularly review ways to improve the effectiveness of what we do through thorough and detailed internal evaluations. A key area of the Board's focus includes defining and communicating our risk appetite and conducting a broad assessment in respect of our business risks in the shorter as well as longer term. Significant risks, which are identified by their size of impact and probability of occurrence, are detailed on the Group risk register, which is regularly reviewed by the Board.

PROSPECTS

The Group has had an encouraging start to the new financial year with both the UK and US expected to be on plan at the end of the first quarter. Group earnings are being assisted by the present strength of the US Dollar against Sterling; a significant proportion of our earnings are made by our US operations and the trading currency of the UK operations is mainly the US Dollar as well.

THANK YOU

We have fantastic staff at Treatt and I would like to take this opportunity to thank them for all their hard work and enthusiasm without which I would not be able to report yet another record year for Treatt.

TIM JONES
Chairman
28 November 2016

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

CHIEF EXECUTIVE
OFFICER'S REPORT

DAEMMON REEVE
CHIEF EXECUTIVE OFFICER

"ANOTHER GOOD YEAR FOR THE GROUP AS WE CONTINUE TO DELIVER ON OUR STRATEGIC OBJECTIVES"

£8.8m
Adjusted* Profit Before Tax
Delivering on our strategic objectives

OVERVIEW – MAIN HIGHLIGHTS

This year has been another solid year of progress for the business, both in terms of financial performance and also our cultural journey which will provide the platform for further progress. We have come a long way in the last few years in the migration of the business from that of a pure supplier to the food and beverage industries to being a trusted and valued partner in the development of innovative and effective ingredients for the industry. This is a long term programme that involves not only the capability upskilling of our people but also a change in the mind-set of the business as a whole. Our progress on this journey is demonstrated through our financial performance. Over the last four years we have increased adjusted* profit before tax by 75% from £5.1m in 2012 to £8.8m this year, a feat for which our colleagues can be immensely proud. Similarly our cash generation has been strong such that net debt has fallen by 87% from £12.9m to £1.7m over the same period as we have turned our profits into cash.

A key driver of our strategy is our people. We measure progress through regular staff surveys and are proud to report a further increase in the level of staff engagement which is critical, not only to motivate and retain our existing colleagues, but also to ensure that we attract high quality candidates for future positions as we continue to grow. The energy we feel around the business every day is directly attributable to our vibrant culture and a major focus of the business is to drive levels of engagement even higher. To support this important work we are strengthening our human resource function across the Group to further enable proactive staff development, training and promote Treatt as an employer of choice in the communities we serve. To ensure our talent pipeline flourishes into the future we are deepening relationships with local schools and colleges, most notably, but not exclusively, in the technical areas of our business.

Whilst Brexit has created some uncertainty for the UK and could potentially introduce complexity for our business, the Board does not currently believe that it will have a material adverse impact on the Group's results or financial position, and as such is not considered as a principal risk. Nevertheless, as set out on page 27, we will be monitoring the situation closely.

The performance across the Group has been consistently strong throughout 2016. New business wins have boosted our financial performance this year with further successes in our core focus areas such as citrus flavours and sugar reduction. The citrus wins have come from new and existing customers in territories from China to South America and the sugar reduction wins have been more specifically concentrated in the US and European beverage markets.

China represents potentially a very large market for Treatt and we have made important progress this year where we opened a new enlarged representative office in the Caohejing High-Tech Industrial Park area of Shanghai. This has had a positive impact as Treatt China is now able to serve customers in a much more timely fashion and, importantly, with products designed by technicians familiar with national flavour nuances. Customers have visited our applications lab to work on final refinement to formulations, further strengthening these relationships. Plans are also in place to further strengthen our team in this important region.

Earthoil recorded its 6th year of consecutive growth in profits. We are pleased to have settled all claims and litigation in respect of the dispute, as we announced on 30 September 2016.

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

CLEAR STRATEGIC FOCUS

During the year our efforts on further innovation in sugar reduction technologies have been enhanced with the addition of further research and development scientists as well as increased focus on this industry-wide imperative. We currently have a number of significant active projects with both existing and potentially new beverage customers in this area of highest topical interest for the global beverage market. We are also working on projects to add value to products which would otherwise be classed as waste produce.

Important beverage customers have been working alongside our technicians in the laboratories, the partnership model we expect to greatly expand on at our new UK site. Working as a solutions provider is enabling deeper relationships with customers; often generating further opportunities and areas of closer collaboration.

Our progress on improving yields and efficiencies within the manufacturing part of our business continues to make meaningful progress and is feeding into the numbers. The cross-functional efforts being made are particularly gratifying and speak of our collaborative culture within the business, which is providing the platform for co-operation at all levels within the organisation. We continue to challenge our processes to identify improvements and encourage ideas and suggested improvements to permeate from all of our colleagues. All of this valuable work is very much in line with our strategy to keep our cost base under strict control and drive business improvement.

WORKING AS A SOLUTIONS PROVIDER IS ENABLING DEEPER RELATIONSHIPS WITH CUSTOMERS; OFTEN GENERATING FURTHER OPPORTUNITIES AND AREAS OF CLOSER COLLABORATION.

CENTRAL TO OUR STRATEGY IS OUR PEOPLE

Our company ethos is based around people and how we impact their lives, both our own people and for society at large. Treatt's people-centric culture encourages passion, enthusiasm and energy amongst its staff but it is important that we also contribute to the communities in which we operate. We look to engage with the people we live and work amongst and take our responsibility towards the local community seriously; after all, we are part of it. Our Community Spirit Initiative reflects our commitment to playing an active role in local society by encouraging our staff to get involved. We regularly release people from their day-to-day roles to work with local charities and schools on a variety of important initiatives such as sponsorship and involvement in events such as "adopt-a-highway" and gardening projects as well as having recently become involved in helping at a care farm for people with learning difficulties. Earlier this year our staff ran a local hospice charity shop for a day, providing the hospice with much-needed additional funds and giving us a great teambuilding event and fun day.

I was delighted and proud to learn recently that we had won the British Chamber of Commerce award for Commitment to People Development for the East of England as this recognition is testament to the commitment and engagement of our team of people. I was also honoured to be asked to speak at the Best Employers Eastern Region event on the topic of our cultural journey.

REFRESHING OUR COMPANY VALUES

We recently challenged our teams to take a hard look at the business and refresh our company values in line with our evolving culture. The level of engagement in the project was very pleasing and as a result we have now adopted the following as our values: Teamwork, Pride and Passion, Integrity and Challenge. Various initiatives will be undertaken to embed these behaviours across the business. Our values are the behaviours required to deliver excellence within the business and are true to the cultural DNA of our company.

HEALTH & SAFETY IS OF PRIME IMPORTANCE

Continuous improvement is critically important in health and safety and our culture promotes open dialogue on possible areas for improvement. During the year our global health and safety team ran a climate safety survey across the business to identify areas of strengths and perceived weaknesses in our processes.

UK SITE RELOCATION

The team at Treatt is excited about the relocation to our new headquarters in the UK. Our experience of moving our Florida facility to new larger premises several years ago has given us real-life experience of the challenges involved in such a move as well as an important insight into the operational and cultural benefits obtainable. Plans for our new site in the UK are progressing well and our cross-functional teams are focused on providing future-proofed world-class facilities. The depth of involvement in the design of the new premises has been extensive, with internal design teams doing some great work to map out the future look and feel of Treatt in line with our strategy and, equally importantly, our culture. Once complete, colleagues will have greater opportunities to engage with one another, being in one purpose-designed building as opposed to the six units we currently occupy on our Bury St. Edmunds site in the UK. The customer experience will be greatly enhanced, correctly showcasing Treatt as a welcoming, vibrant and technically excellent environment. In the meantime, we have reduced investment into our current UK site and delayed a number of long term projects to enhance our manufacturing capabilities until we move. This has resulted in a short term cash flow gain which will reverse in due course.

SUMMARY

There is heightened confidence within Treatt and our financial year is off to a pleasing start given that the first quarter is, seasonally, normally our quietest period. Nevertheless, we continue to act in a prudent manner. The teams are driving at new business wins, improved systems and processes and further efficiency savings in the business. We continue to challenge much of the established practices of the business to find value and improvement and we all find this motivational. Our energy is focused to build upon the successes of the past four years.

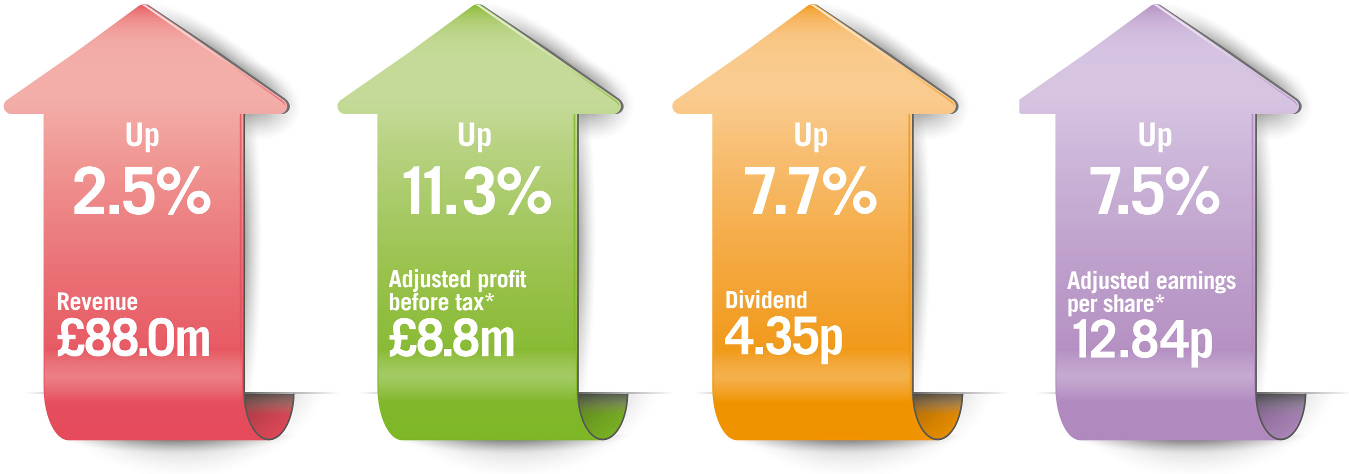
DAEMMON REEVE
Chief Executive Officer
28 November 2016

FINANCIAL
REVIEW

RICHARD HOPE
FINANCE DIRECTOR

"ADJUSTED* PROFIT BEFORE TAX INCREASED BY 11% – FOUR CONSECUTIVE YEARS OF CONSISTENT, SUSTAINABLE, GROWTH – AND NET DEBT REDUCED TO BELOW £2M"

Financial overview



	2016	2015
Net operating margin	**10.8%**	10.1%
Return on capital employed	**24.6%**	22.1%
Average net debt to EBITDA	**0.35x**	0.78x

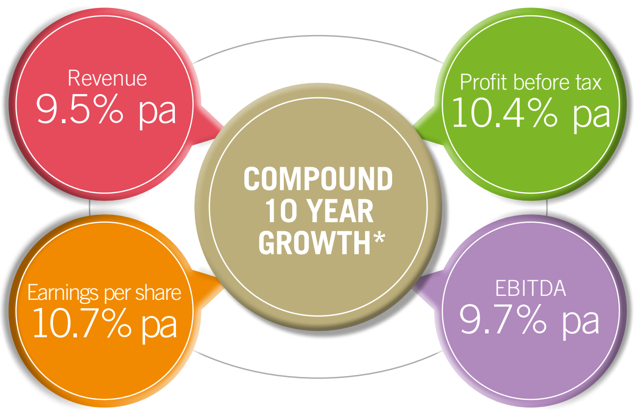
Income Statement

Revenue and profit

Revenue for the year grew by 2.5% to £88.0m (2015: £85.9m) whilst gross profit grew by a more significant 7.5%, reflecting the success of the Group's strategy of moving up the value chain and focusing on added-value products. The rate of revenue growth was therefore muted by the active management of certain high priced (but low margin) traded business. Key areas of growth, which more than replaced the reduction in traded business, included sugar reduction, tea, natural distillates and citrus.

An important long term KPI for the Group is net operating margin which increased from 10.1% to 10.8% as the combined strategic benefits of growing revenue, replacing traded commodity business with bespoke, innovative products, whilst maintaining a tight control of costs continues to show through. This resulted in a 10% increase in operating profit to £9.5m (2015: £8.7m). Return on capital employed increased to 24.6% (2015: 22.1%).

As explained opposite, the Group mitigates its foreign exchange risk. The impact of movements in foreign exchange rates on profit before tax is the net of retranslating overseas profits, retranslating foreign currency transactions in UK businesses and the gains or losses on foreign exchange hedging instruments such as forward and option contracts. When taken together, therefore, the net impact on the profit before tax for the year was a loss of £0.5m.



* All measures are adjusted to exclude exceptional items.

Exceptional costs in the year of £0.6m (2015: £0.2m) include £0.3m in relation to the final legal costs concerning the Earthoil earnout dispute. Although not material in the year, these costs have been accounted for as an exceptional item in order to maintain consistent treatment with prior years. A further £0.3m exceptional charge was incurred in relation to some one-off restructuring costs in Kenya and the US. On an adjusted basis excluding these costs, earnings before interest, tax, depreciation and amortisation for the year increased by 9% to £11.0m (2015: £10.1m). Profit before tax after exceptional items rose by 7% to £8.3m (2015: £7.8m). Further information on the exceptional items is given in note 8.

Dividends and earnings per share

The proposed final dividend of 3.00p per share (2015: 2.76p) increases the total dividend per share for the year by 7.7% to 4.35p, representing dividend cover of 2.9 times pre-exceptional earnings for the year and a rolling three year cover after exceptional items of 2.5 times. The Board's policy is to maintain dividend growth on a consistent basis at between 2.0 and 2.5 times three year rolling cover. This year's dividend increase has resulted in dividend cover at the prudent end of the policy range which the Board consider to be appropriate given the forthcoming cash requirements of the business in order to fund the impending UK site relocation. Nevertheless, this represents an increase in the dividend of 50% over the last five years. Basic earnings per share (adjusted to exclude exceptional items – see note 11 to the financial statements) for the year increased by 7.5% to 12.84p (2015: 11.94p). The calculation of earnings per share excludes those shares which are held by the Treatt Employee Benefit Trust (EBT) and Treatt SIP Trust (SIP) since they do not rank for dividend, and is based upon adjusted profit after tax.

Foreign exchange gains and losses

Whilst the Group's functional currency is the British Pound ('Sterling') as explained below, the amount of business which is transacted in other currencies creates foreign exchange risk, particularly the US Dollar and, to a more limited extent, the Euro. During the year the US Dollar/Sterling rate moved materially and the US Dollar ended the year 14% stronger against GBP at £1=$1.30 (2015: £1 = $1.51). As explained further in this report under 'Treasury Policies', the Group hedges its foreign exchange risk at R C Treatt by holding and managing US Dollar borrowings and taking out forward currency contracts and options. This can result in timing differences in the short term, giving rise to re-translation gains or losses in the income statement. This has resulted in a small loss on trading transactions of less than £0.1m in 2016 (2015: £0.3m loss) and a loss on foreign exchange contracts of £2.2m (2015: £0.2m gain) which has been netted off the revenue line in the income statement. As part of the Group's hedge accounting, a foreign exchange gain of £0.2m was taken to reserves through the Statement of Other Comprehensive Income (2015: £0.2m loss).

Financial review continued

There was a substantial currency gain of £2.6m (2015: £0.8m) 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 decreased by 4.0% to £0.71m (2015: £0.74m) as a result of the combined effect of lower levels of net debt and marginally lower interest rates. Although debt levels have fallen considerably, this has not fed through to substantially lower charges since a significant proportion of the Group's finance costs are fixed through an interest rate swap (see below), and the carrying cost of unutilised facilities now represents a far greater proportion of the overall cost. The Board continue to be of the view that whilst a significant proportion of current banking facilities remain unutilised, the current level of these facilities remains appropriate in order to manage cash flow peaks during the year and also in the light of significant capital expenditure requirements over the next few years. Interest cover for the year increased to 13.6 times (2015: 11.7 times).

As part of the Group's risk management, in 2011 R C Treatt fixed $9m of US Dollar borrowings at 5.68% for ten years by way of an interest rate swap. This swap has been designated as a 'hedge' in accordance with IFRS and consequently any movements in the mark-to-market of the swap are taken directly to equity. At the balance sheet date, the fair value liability, net of deferred tax, of the swap was £0.8m (2015: £0.6m).

Group Tax Charge

The current tax charge of £2.4m (2015: £1.9m) represents an effective rate (based on profit before tax and exceptional items) of 27.0% (2015: 24.2%). After providing for deferred tax, the overall tax charge has increased by £0.3m to £2.1m (2015: £1.8m); an overall effective tax rate (after exceptional items) of 26% (2015: 23%). The increase in the tax rate applicable for the year reflects a different profit mix between tax jurisdictions. 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 next four years assuming the profit mix between tax jurisdictions remains broadly unchanged.

Balance Sheet

Group shareholders' funds grew by £4.0m (2015: £4.4m) in the year to £37.2m (2015: £33.2m), with net assets per share increasing by 13% to 71p (2015: 63p). Over the last five years, net assets per share have grown by 46%. The Board has chosen not to avail itself of the option under IFRS to revalue land and buildings annually and, therefore, all the Group's land and buildings are held at historical cost, net of depreciation, in the balance sheet. It should be noted that net assets have been reduced by £0.3m (2015: £0.4m) as a result of shares held by the EBT and SIP, due to the accounting requirements for employee trusts. This impact will be reversed when these shares are used to satisfy the exercise of employee share options.

Cash Flow

The Group has continued to improve its cash performance and in the year net debt fell by £4.5m to £1.7m (2015: £6.2m) with a corresponding reduction in the level of gearing from 19% to just 4%. This is the lowest debt level the Group has had since 2004 (when revenue was £32m and inventory was £8m for the Group).

The levels of capital expenditure in the year remained very low with a total spend of just £0.7m compared with £1.0m in 2015. There were no major projects in the year, whilst capital expenditure in the UK tended to be related to on-going 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 opposite) as both delayed projects, and brought forward capital expenditure, will occur as part of the site relocation.

The Group has a mix of secured and unsecured borrowing facilities totalling £22.4m, of which £3.1m expire 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.

	2016	2015	Movement
Free cash flow	£8.0m	£6.2m	+30%

	2016	2015	Movement
Cash conversion rate	84%	71%	+13%

There was an increase in cash tied up in inventory for the year of £2.5m. This was due to a combination of higher order books at year end, the retranslation of inventory held in the US resulting from a stronger US Dollar, as well as higher prices for certain key raw materials. The level of inventory, which is highly significant in cash terms, arises because as an ingredients specialist, Treatt takes many annual, and in some cases longer-term, contracts with customers as well as servicing the immediate spot needs of its diverse customer base. The success of the business has been built upon managing geographic, political and climatic risk of supply for our customers by judicious purchasing and inventory management to ensure continuity of supply and availability. Therefore it is part of the Group's business model to hold significant levels of inventory, although typically less than 5% is on average more than a year old.

UK Site relocation

As explained in the Chairman' Statement and CEO Report, we continue to progress detailed plans for relocating our UK business from its current site in Bury St. Edmunds, UK, to a brand new purpose-built facility. This is a project which the Board believes is essential in order to deliver our growth objectives over the medium to long term.

Although a project such as this is extremely complex, and since the detailed design briefs have yet to be put out to tender, all costings are by their nature estimates and have not been contracted for at this stage. Due to the many stakeholders involved, key elements of the timelines for the move such as planning approvals are outside our control and are also potentially subject to change.

Nevertheless we want to keep shareholders appraised of developments and the following table breaks down the latest cost estimates for the project. Note that these include costs to upgrade our plant and machinery and new technologies. As a business we keep abreast of new technologies which can add value to our operations and the move gives us the opportunity to incorporate some of these in the design and build of the new facility. The level of investment in this area is still subject to review but current estimates are in the order of £3m - £5m.

The overall costs of this move break down into four key elements with the latest estimated costs as follows:

Land, buildings, and move costs	£20m – £26m
Capital projects held back over the last three years	£3m – £5m
Upgraded plant and machinery and new technologies	£3m – £5m
Less: Disposal of current site	(£5m)
Total estimated cash outflow over 2-3 years	£21m – £31m

We hope to be in a position to commence the planning application process in early 2017, with construction estimated to begin in early 2018 and the new site being up and running by late 2019.

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 £525 (2015: £500) of 'Free Shares' during the year as part of the Group's employee incentive and engagement programme as the Board are 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 $825 (2015: $800) 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 £1,800 of Treatt shares out of gross income at no cost to the company which the company matched on a one for one basis. In the year a total of 52,000 (2015: Nil) matching shares were granted.

During the year, 160,000 (2015: 90,000) shares were issued to the SIP at par (2 pence per share). The SIP currently holds 241,000 shares (2015: 88,000), of which 17,000 are beneficially owned by the company. It is anticipated that going forward the obligations under the SIP will be satisfied through the issue of further shares.

In addition, the Group continued its annual programme of offering share option saving schemes to staff in the UK and USA. Under US tax legislation, staff at 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 520,000 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 806,000 (2015: 783,000) shares during the year, whilst 159,000 (2015: 220,000) were exercised from options awarded in prior years which have now vested.

The Employee Benefit Trust (EBT) currently holds 577,000 shares (2015: 736,000) acquired in the market 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 by increasing the share capital of the Parent Company.

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 company's defined contribution pension plan with effect from 1 January 2013. This means that the defined benefit scheme has been de-risked as far as it is practicable and reasonable to do so.

The last three-year actuarial review of the scheme was carried out as at 1 January 2015, the result of which was that the scheme had an actuarial surplus of £314,000. Consequently, the company was able to agree with the trustees that with effect from 1 October 2015 it did not need to make any further contributions to the scheme. It was further agreed that if the annual actuarial funding updates, before the next full actuarial review in 2018, reveal that the funding level has fallen to 95% or less of the scheme liabilities, then the company would voluntarily resume contributions.

As required by The Pension Regulator, the actuarial review was updated on a consistent basis as at 30 September 2016 and, in common with most other final salary pension schemes, this revealed an actuarial deficit of £1.7m, being a funding level of 92% (2015: 103%). The reduction in the funding level largely resulted from a fall in the assumed future investment returns for the fund. The company has therefore agreed to resume its previous contributions of £300k per annum on a voluntary basis until such time as the fund returns to surplus.

Alongside this, the IAS 19, "Employee Benefits" pension liability in the balance sheet, net of deferred tax, increased in the year from £2.4m to £6.1m. This is the largest gap between the actuarial and accounting positions since the introduction of IFRS in 2005. The principal cause of this difference is that IAS 19 requires that investment returns must reflect a 100% corporate bond return of 2.6%, whereas the actuarial calculations are based on the actual investment strategy for which returns of 5.35% and 3.45% for pre and post-retirement returns was assumed.

Financial Risk Management

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

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

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

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

Secondly, with R C Treatt exporting throughout the world, fluctuations in Sterling's value can affect both the gross margin and operating costs. Sales are principally made in two currencies in addition to Sterling, with the US Dollar being the most significant. Even if a sale is made in Sterling, its price may be set by reference to its US Dollar denominated raw material price and therefore has an impact on the Sterling gross margin. Raw materials are also mainly purchased in US Dollars and therefore US Dollar bank accounts are operated, through which US Dollar denominated sales and purchases flow. Hence it is Sterling's relative strength against the US Dollar that is of prime importance.

As well as affecting the cash value of sales, US Dollar exchange movements can also have a significant effect on the replacement cost of stocks, which affects future profitability and competitiveness.

The Group therefore has a policy of maintaining the majority of cash balances, including the main Group overdraft facilities, in US Dollars and, to a lesser extent in Euros, as this is the most cost effective means of providing a natural hedge against movements in exchange rates. Where it is more cost effective to do so, the Group will enter into forward currency contracts and options as well. Consequently, during the year forward currency contracts and options have been entered into which hedge part of R C Treatt's foreign exchange risk. These contracts and options have been designated as formal 'hedge' arrangements, with movements in mark-to-market valuations initially taken to equity and re-cycled to the income statement to match with the appropriately hedged currency receipts. Currency accounts are also run for the other main currencies to which R C Treatt is exposed. This policy is expected to protect the Group against short-term swings in currencies.

Summary

In 2012 we embarked on a clear strategy for the Group to deliver long term, sustainable, growth in profits. Last year we refreshed our strategy through to 2020 by setting ourselves new goals whilst continuing with our central strategic objective of continual, steady, growth in profits which is sustained through a clear focus on long term thinking.

We can therefore look back on another successful year both in terms of profitability, but equally importantly in terms of cash performance. As we look ahead to the new financial year, which has got off to an encouraging start, the Group's cash position puts the business in a strong position to make the very important investments needed to enable the Group to drive value for all stakeholders.

RICHARD HOPE
Finance Director
28 November 2016

Directors' Report

Financial statements

The Directors present their report and the audited financial statements for the Group for the year ended 30 September 2016.

Results and dividends

The results of the Group for the year are set out on page 53. Profit before tax for the year excluding exceptional items was £8,846,000 (2015: £7,950,000).

The Directors recommend a final dividend of 3.00p (2015: 2.76p) per ordinary share. This, when taken with the interim dividend of 1.35p (2015: 1.28p) per share paid on 14 October 2016, gives a total dividend of 4.35p (2015: 4.04p) per share for the year ended 30 September 2016.

Corporate governance

The Corporate Governance Statement on pages 34 to 38 forms part of this Directors' Report.

Directors

The Directors of the Parent Company are shown on page 96.

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 35.

Details of the Executive Directors' contracts and notice periods are given in the Directors' Remuneration Report on page 45. The Executive Directors' contracts are terminable by the Group giving the required notice period of one year.

In accordance with the Parent Company's Articles of Association and as reported in the Corporate Governance Statement on page 35 (in recognition of Provision B.7.1 of the 2014 UK Corporate Governance Code) Anita Haines, David Johnston and Jeff Iliffe retire by rotation and Richard Illek retires, having been appointed during the year. All Directors, being eligible, offer themselves for re-election. The Nomination Committee confirms that the individuals' performances continue to be effective and to demonstrate commitment to the role, including commitment of time for Board and Committee meetings and any other duties.

Directors' interests in shares

The interests of Directors in shares of the Parent Company are shown in the Directors' Remuneration Report on page 48.

Substantial shareholders

In accordance with Rule 5 of the Disclosure and Transparency Rules of the Financial Services Authority, the Parent Company has been notified of the following holdings of 3% or more of the voting rights at 24 November 2016 (the latest practicable reporting date prior to publication of this document).

	Number	%
Discretionary Unit Fund Managers	7,475,000	14.42
Schroder Investment Management	6,816,345	13.15
Miton Capital Partners	2,071,150	4.00
Barclays Wealth	1,900,900	3.74
BMO Global Asset Management	1,849,460	3.59

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 interests. If a Director becomes aware that they, or a connected party, have an interest in an existing or proposed transaction with the Group, they should notify the Company Secretary as soon as possible. Directors have a continuing obligation to update any changes to conflicts and the Board formally reviews them annually.

Directors' and officers' liability insurance

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

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 26 to 33. 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 area. In this way it seeks to make itself indispensable to a key group of major global multi-national companies. In the opinion of the Directors, continuity of investment in this area is essential for the maintenance of the Group's market position and for future growth.

Financial instruments

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

Going concern and viability statement

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Chairman's Statement, CEO's Report and Financial Review on pages 10 to 19. Information on the principal risks and uncertainties and how they are managed can be found in the Strategic Report on pages 26 to 30.

In accordance with provision C.2.2 of the 2014 UK Corporate Governance Code, the Directors have assessed the prospects of the Group over a longer period than the 12 months required by the "Going Concern" provision, C.1.3 of the 2014 UK Corporate Governance Code. The Board conducted this review for a period of five years, which is consistent with the longer term financial plans for the Group.

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

The process adopted to assess the viability of the Group involved the modelling a series of theoretical "stress test" scenarios linked to the Group's principal risks, which are shown on pages 26 to 30. 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 30.

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

- the implications of the challenging economic environment and future uncertainties on the Group revenues and profits;
- the implications of currently high orange oil prices;
- the implication of the proposed site relocation in the UK;
- the impact of the competitive environment within which the Group's businesses operate;
- the potential actions that could be taken in the event that revenues are worse than expected, to ensure that operating profit and cash flows are protected;
- the Group's access to short, medium and long-term borrowing facilities to meet day-to-day working capital requirements 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.

The current expectations regarding the costs of the proposed UK site relocation are set out in the Financial Review on page 18. Given the levels of debt finance available to the Group to fund these investments and the possibility of raising equity finance should that be required, 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 twelve months from the date of this annual report. Furthermore, the Directors have a reasonable expectation that the Group has adequate resources available to it to continue in business and meet its liabilities over the five year period of their viability assessment.

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

Health and safety

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

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

Directors' Report continued

A top to bottom culture of safety awareness and responsibility is actively promoted and a training programme of accredited safety management and awareness courses is in place across the workforce to help underpin the efforts of the health and safety professionals already employed within the Group. Members of staff are appointed as Safety Champions across the Group in various departments and provide additional monitoring capability and support to staff on a day to day basis. These additional responsibilities, for which Safety Champions receive payment, ensure that safety remains a top priority in the business.

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

Greenhouse gas emissions

The Group's disclosures on greenhouse gas emissions have been included within the Strategic Report on page 31.

Employees

The Group's disclosures on employees have been included in the Strategic Report on page 32.

Structure of share capital

The Parent Company's share capital comprises 52,655,170 ordinary shares with a nominal value of 2 pence each. All of the Parent Company's issued ordinary shares are fully paid up and rank equally in all respects. The rights attached to them, in addition to those conferred on their holders by law, are set out in the Articles, a copy of which can be found on the Treatt website or obtained on request from the Company Secretary.

Details of the issued ordinary share capital of the Parent Company and movements during the year are set out in note 24 of the financial statements. During the current period the Parent Company issued 160,000 shares to Treatt SIP Trustees Limited (2015: 90,000).

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 Services Authority's Listing Rules or the City Code on Takeovers and Mergers.

Rights and obligations of ordinary shares

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

Articles of Association

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

Powers of the Directors and purchase of own shares

At the forthcoming Annual General Meeting in 2017, 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 in order that the Parent Company is able to act at short notice if circumstances warrant.

A resolution will also be proposed at the 2017 Annual General Meeting, to renew the power given to the Directors to issue new shares up to an amount of 33% of the existing issued share capital, in line with the latest institutional guidelines issued by the Association of British Insurers (ABI), of which 5% of the existing issued share capital can be issued by disapplying pre-emption rights.

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

In order to provide the Parent Company with greater flexibility in view of its intention for a full site relocation of its UK operation, as last year a further resolution will also be proposed at the Annual General Meeting seeking authority to disapply pre-emption rights on a further 5% of the existing issued share capital for use in connection with a specified capital investment, being the site relocation. The request for such authority is in accordance with the 2015 guidelines issued by the Pre-emption Group and further details are set out in the notice of Annual General Meeting. These authorities, if granted by shareholders at the Annual General Meeting, will expire at the conclusion of the Annual General Meeting in 2018.

Treatt Employee Benefit Trust (the "EBT")

The EBT holds ordinary shares in the Parent Company (acquired in the market) in order to meet obligations under the Group's employee share option schemes. No shares (2015: Nil) were purchased by the EBT during the year ended 30 September 2016. 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 160,000 (2015: 90,000) shares were issued under a block listing application. Voting rights are waived on all shares held in the SIP Trust, whether or not allocated to participants under the rules of the Share Incentive Plan. Dividends are only waived in respect of shares which have not been allocated to participants; dividends received by the SIP Trust on behalf of participants are reinvested in shares at market value on the date of reinvestment.

Annual General Meeting and restrictions on voting deadlines

The Annual General Meeting of the Parent Company will be held at Treatt plc, Northern Way, Bury St Edmunds, Suffolk, IP32 6NL on 27 January 2017. The Notice of Meeting and explanatory notes are given on pages 91 to 95. The notice of any general meeting will specify the deadline for exercising voting rights and appointing a proxy or proxies to vote in relation to resolutions to be proposed at a general meeting. The number of proxy votes for, against or withheld in respect of each resolution are announced and published on the Treatt website after the meeting.

Auditors

RSM UK Audit LLP has indicated its willingness to continue in office. On the recommendation of the Audit Committee, resolutions are to be proposed at the Annual General Meeting for the re-appointment of RSM UK Audit LLP as auditors of the Parent Company and its subsidiaries, and to authorise the Board to fix their remuneration. The remuneration of the auditors for the year ended 30 September 2016 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.

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; and

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.

Statement as to Disclosure of Information to Auditors

The Directors who were in office on the date of approval of these financial statements have confirmed, as far as they are aware, that there is no relevant audit information of which the auditors are unaware. Each of the Directors have confirmed that they have taken all the steps that they ought to have taken as Directors in order to make themselves aware of any relevant audit information and to establish that it has been communicated to the auditors.

This report was approved by the Board on 28 November 2016.

ANITA STEER
Secretary

THE BOARD

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

During the course of the year Ian Neil retired and Richard Illek was appointed as a Non-executive Director.


1


2


3


4


5


6


7

1 Daemmon Reeve ◆

Chief Executive Officer, first appointed 2012

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

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

2 Tim Jones ◆ *Chairman* ● *

Non-executive Chairman, first appointed 2012

Tim has led Treatt's Board as its Chairman since 2012. He also runs Allia, a charitable organisation providing resources to the third sector through Stock Exchange listed Bonds, business mentoring and the provision of workspace.

He began a career in financial services with Royal Insurance in the 1970s 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.

The Judge Business School at Cambridge University awarded him its Certificate in Enterprise in May 2007 and made him Entrepreneur in Residence in 2012, a Mentor in 2014 and an Honorary Fellow in 2016.

Tim is a non-executive director of Retail Charity Bonds plc and serves on the advisory board of the Lord Ashcroft International Business School. He remains actively involved in the City of London where he is a Freeman and a Liveryman. Tim is a family man, an enthusiastic cook, a patient skier and a novice sailor.

3 Richard Hope

Finance Director, first appointed 2003

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

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

◆ **Nomination Committee**

● **Remuneration Committee**

* **Audit Committee**

4 Jeff Iliffe ◆ ● * *Chairman*

Non-executive Director, first appointed 2013

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

He was CFO of Abcam plc from 2007 until recently, as the company delivered huge growth to become a world leading life sciences business. Previously he was a corporate financier at Panmure Gordon & Co, during which time he advised Treatt, and has held senior financial positions in environmental, biotechnology and internet based businesses.

He is also a trustee of the Cambridge Arts Theatre.

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

5 Anita Haines ◆

Non-executive Director, first appointed 2002

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

6 Richard Illek ◆ ●

Non-executive Director, first appointed 2016

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

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

7 David Johnston ◆ ● *Chairman* *

Senior Independent Director

Non-executive Director, first appointed 2011

David started his career working as a biochemist for the UK government prior to transferring to Switzerland where he worked on an international program to enhance the resistance of plants to pathogens.

He then joined one of the leading flavour and fragrance companies, Firmenich SA, in a variety of commercial and technical roles over 13 years. He finished his career at Firmenich SA as head of flavour innovation globally. He then started his own company, Natural Taste Consulting SARL, focused on the development and sales of taste modifying compounds.

David also serves as a non-executive director of James Finlay Ltd.

Strategic Report

OVERVIEW

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

An overview of the Group's strategy and business model is set out below and together with the Chairman's Statement, CEO's Report and Financial Review on pages 10 to 19, form part of this Group Strategic Report. This incorporates a review of the Group's activities, its business performance and developments during the year, as well as an indication of likely future developments.

The Board approved an updated Group strategy in July 2015 and this was presented to all employees with management responsibility in the UK and US by the Executive Directors at strategy days held during September and October 2015. These managers ensure that the strategy is thoroughly communicated throughout the business and that each member of their team understands how they can have a positive impact on the overall Group strategy. The main objective of the strategy remains as reported in the 2015 report and accounts; the focus is on the delivery of long-term and consistent growth in profitability by focusing on those customers and products which can bring Treatt long-term sustainable value. The strategy places a strong focus on building close, long-term relationships with customers in the beverage sector, providing them with solutions for differential advantage in the marketplace.

Our business model is designed to deliver consistent, quality ingredient solutions to our customers, driven by listening to and anticipating their needs. In doing so, we are increasingly leveraging our position as a key supplier to major global multi-national corporations. Key to the success of our business model is our experience and knowledge of the ingredients we handle, and our focus on product innovation.

We recognise that it is important to be able to respond to customer requests for samples in a timely manner and with products that meet their needs and expectations. Accordingly, during the year further investment has been made in China to establish a local laboratory that is able to work on, and dispatch, samples to customers without them having to wait for a sample from the UK to clear customs in China. The product library in China has been specifically selected to appeal to the Chinese palette, rather than catering to western tastes. The new laboratory also enables samples to be modified efficiently to comply with customer specifications, thereby enabling Treatt to grow its sales into China at a faster pace.

In serving the flavour, fragrance and FMCG industries, we place a particular emphasis on the beverage market, including alcoholic beverages, where many of our innovative ingredient solutions are used.

In order to deliver long-term sustainable profit growth, the following key pillars to our strategy will support a focused sales approach:

- **MEETING CUSTOMER NEEDS –** We have an excellent reputation for delivering quality products, which meet the needs of the customer. We regularly challenge and improve our quality control and assurance processes to ensure that our customers receive quality products, right first time. Our market place is increasingly dynamic and our customers continually seek innovative ways to differentiate their offering in the consumer space through various means with differential flavour advantage. Treatt's expertise in flavour innovation and solutions that provide authenticity bring significant value to the customer.

- **SOLUTIONS IN MANY FORMS –** At Treatt we recognise that an ingredient solution may take many different forms. Some will be more closely aligned with our traditional ingredients business, which we continue to operate but with a more focused approach; others will involve greater innovation and the use of new and exciting ingredients and blends crafted by our experienced and skilled employees, many of whom are regarded as experts in their respective fields, from sugar reduction to brewing, from citrus to tea. It is by building trust through offering our experts to assist our customers' needs that we reach a high level of customer engagement on many fronts. This trust increases the likelihood of customers increasingly turning to Treatt as opposed to "shopping" opportunities in the market.

- **DIFFERENTIAL ADVANTAGE –** Treatt has many skilled, qualified and experienced staff in all areas of the business and investment in the Group's technical capabilities continues. We recognise that these staff bring added-value to our products and our customers' businesses and therefore they often accompany the sales team on visits and at exhibitions, working closely with customers to meet their needs. Sales is the responsibility of all employees and culturally at Treatt all departments are aligned behind the needs of the customer.

- **CUSTOMER INTIMACY –** Building close relationships with our customers is essential; by providing them with value propositions, which meet or exceed their needs, we aim to build a level of intimacy with our customers where Treatt is their first choice supplier for ingredients solutions, without the need to brief other suppliers.

- **CULTURE –** At Treatt our culture within the business is critically important to our success. We recognise that a happy, well-motivated and engaged workforce is a more successful one and we drive relentlessly at reinforcing our culture to enable our talented colleagues to thrive in a great environment. As part of the previous strategy implementation, we moved to "One Treatt" and now operate the business on a progressively global platform. We encourage staff to get to know each other, share experiences, communicate and work as a team. A business is only as good as its people – we attract and promote the most talented people to drive our business, and importantly our culture, forward and foster an environment of creativity, responsibility, accountability and enjoyment.

Health and safety will always remain a key priority in the business. Without a safe business the Group cannot exist. We continuously train and re-train our staff to ensure that we operate best health and safety practices throughout the organisation.

A continued focus on health and safety and encouragement of the reporting of incidents has resulted in a decrease in the number of accidents, with only one reportable accident at both Treatt USA and Earthoil Kenya and none at R C Treatt. Although reportable, neither of the accidents resulted in serious injury to staff and appropriate actions were taken in response to reduce the likelihood of further occurrences.

The average number of sick days per employee has again increased despite new absence policies having been introduced in 2014. Whilst the incidence of short term sickness remains consistent with last year there has been a further increase in long-term absence caused by serious illness. It is anticipated that, due to the demographic of our workforce, this pattern will continue and may result in further increases in the long term sickness rate.

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

Principal Risks and Uncertainties

Whilst the Board has overall responsibility for setting the risk appetite within the business and for Group risk management, day to day risk management responsibility is delegated to the Executive Directors who work closely with the senior management teams in reviewing and monitoring risk across the business. Risk appetite is an expression of the type and amount of risk we are willing to accept to achieve our strategic objectives. The Board sets the appetite for risk across the business by reviewing and challenging the risk registers and 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

Key Performance Indicators (KPIs)[1]

KPIs have been set at Group level, having been devised to allow the Board and shareholders to monitor the Group as a whole, as well as the operating businesses within the Group. The Group has financial KPIs which it monitors on a regular basis at Board level and, where relevant, at operational executive management meetings as follows:

	2016	2015	2014	2013	2012
Growth in adjusted profit before tax	**11.3%**	15.2%	10.9%	23.1%	(20.6%)
Growth in adjusted basic earnings per share	**7.5%**	20.0%	15.2%	25.6%	(19.1%)
Net operating margin	**10.8%**	10.1%	9.6%	9.4%	7.6%
Return on capital employed[2]	**24.6%**	22.1%	19.6%	19.4%	14.4%
Average net debt to EBITDA	**0.35**	0.78	0.99	1.28	1.52

[1] All KPIs are calculated excluding exceptional items.

[2] Return is defined as operating profit. Capital employed is defined as net assets plus net debt.

Further explanation of the calculations is given on page 9.

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

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

decision-making across the Group and helps to define the actions required to mitigate our risks. Effective risk management is inherent in the culture of the Group and the way in which we do business. An understanding of the risks within our business and their strategic, commercial, financial and legal implications encourages clear decision-making in respect of the risks that we will and will not take.

As well as being inherent in the way we work, our risk management framework provides a consistent and structured process for identifying, assessing, responding to and monitoring risk. The senior management teams compile Group risk registers considering the effects of risks on the business and determining appropriate and proportionate risk mitigation strategies. Responsibility for monitoring and review of 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. Any risks that remain classified as high or medium post mitigation form the Board risk register, providing details of those risks that may impact upon the strategic direction of the Group. The Board reviews the detailed risk registers twice a year and upon any material change, with any amendments, control issues, accidents or commercial, financial or reputational issues being reported to the Board in the meantime.

The Board has conducted a review of the effectiveness of the Group's system of internal controls and risk management procedures. The Board receives an annual paper detailing the effectiveness of the Group's internal controls, which is reviewed and discussed by the Board. This paper covers all material controls including financial, operating and compliance controls. The Board has also monitored and reviewed the effectiveness of the Group's approach to risk management and has solicited the views of a number of senior managers relating to health and safety and legal and insurance matters and the management of those risks. The Board has concluded that the current risk management procedures for identifying risks and considering risk mitigation are appropriate.

Whilst foreign exchange is a risk to the business and the underlying impact of the strengthening US dollar has had an effect on profits in the financial year, it is not a material risk to the strategy due to its short term effects and due to the hedging strategies which we have in place. The majority of the Group's raw material purchases are made in US dollars, as are the majority of the Group's sales. Sharp fluctuations in currency have a short term effect on the Group's profits. However, the Group has hedging policies in place which minimise 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 16 to 19.

Following the decision of the United Kingdom to leave the European Union (known as "Brexit") 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 has been no visible impact on the business from Brexit. The detail of how the UK intends to exit the EU is yet to be decided, however, management believe Treatt's global footprint gives it significant flexibility to face any challenges that may arise.

As explained in the CEO Review, the immediate impact of Brexit related to movements in foreign exchange rates. We do not currently foresee any regulatory changes as a result of Brexit that we would expect to have a material impact on our business. Nevertheless we will continue to monitor the situation closely, including the following areas of potential impact on our business:

- Short-term volatility in exchange rates. The continued weakness of Sterling against the currencies in which the Group trades, such as that seen since the UK's referendum vote to leave the EU, would be positive for revenues and profitability. With the increasing revenue flows from our US business, which continues to grow, Treatt has benefited 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 in FX, which is designed to unwind over a period of time depending on our prevailing inventory turn. A large majority of our inventory is US Dollar denominated. Our policy is to hedge a material proportion of estimated net foreign currency cash flows, on a rolling basis. Consequently, the impact on earnings of Sterling volatility since the referendum is expected to be limited in the 2017 financial year.
- Increases or decreases to import or export tariffs both with EU countries and globally, dependent upon the outcome of future trade negotiations.

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

How we manage risks

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

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

Strategic Report continued

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.

The risk climate in relation to our people has been amended this year from an increasing risk to an unchanged risk, with skilled and experienced staff continuing to visit customers as part of our added-value proposition thereby increasing their networks and the possibility of them being poached. The risk climate in movements in raw material prices has increased with orange, in particular, currently at record high prices; although action taken during the year is designed to mitigate the risk of such price movements and it is an area in which Treatt is particularly experienced. A failure to comply with HMRC approvals in respect of duty free ethanol has been removed since although it remains a risk, it is unlikely, at this stage, to have significant impact on the long term performance of the business. Although the flavoured alcohol beverage sector remains an important opportunity, sales into this market are not wholly dependent on the delivery of the product in ethanol and volumes, although increasing steadily, are lower than volumes across the rest of the product portfolio.

Strategic Priorities

✔ Meeting customer needs ❊ Solutions in many forms ✙ Differential advantage ❖ Customer intimacy ★ Culture

Risk	*Effect*	*Strategic impact*	*Risk climate*	*Mitigation*	*Action during year*
People					
Poaching of key staff	As our highly skilled and experienced staff become increasingly customer facing the risk of them being headhunted increases	✙ ❖ ★	➔ No change	Secure an emotional attachment to the business; Salary and benefits to be appropriate to the position; Ensure staff are empowered and have opportunities within the business	Proactive engagement initiatives, review and enhancement of benefits, increased investment in training, focused recruitment initiatives to create talent pipelines. Creating opportunities for knowledge sharing to spread the specialist knowledge (such as lunch and learns and product focused training)
Financial					
Movements in commodity raw material prices	Impact on contribution, possible stock shortages	✔ ❊	↑ Increased	Regular stock meetings and inventory control with experienced members of staff; Monitoring and communication of market conditions; Long-term commodity contracts	Maintaining close contact with suppliers and continuing to gather and disseminate market intelligence on key raw materials, assisting our customers to manage price volatility as part of the Treatt service. Establishment of a designated internal team to improve management of Treatt's most significant raw materials across the Group
Operational					
Pressure on infrastructure from strategic business wins	Loss of revenue, damage to reputation, loss of key strategic customer	✔ ❊ ❖	➔ No change	Ensure appropriate investment in infrastructure; Close communication between sales and operations to determine likelihood of large order and capacity restraints to manage customer expectations; Manage sub-contractor relationships	Continued investment in current sites as appropriate; Purchase of new operational and technical equipment, which will be transferred to the new site in the UK where applicable, and increase in headcount in appropriate areas
Structural damage to production facilities, particularly at Treatt USA, which is in a location which suffers from major storms	Loss of use of buildings, danger to staff, loss of equipment and product; Major incident due to type of products stored	✔ ❊	➔ No change	Regularly inspect and maintain building components; Implement hurricane action plan when necessary; Sufficient spread of inventory between production facilities in UK and US; Appropriate insurance cover in place	Continued maintenance and upkeep of buildings. Hurricane action plan tested during Hurricane Matthew

Risk	***Effect***	***Strategic impact***	***Risk climate***	***Mitigation***	***Action during year***
Operational *(continued)*					
Inadequate documentation of processes and/ or adherence to required processes	Failure of third party audits and damage to reputation as problem-free supplier	✔	➔ No change	Strong commitment Group-wide to disciplined compliance to internal quality programs; Commitment to permit third party auditing	Seven third party certification and regulatory audits facilitated and any non-conformances rectified together with fourteen customer audits across the Group undertaken by large multi-national companies
IT issues including network, hardware, data and security	Loss of IT systems and/or data, impacting on the ability of the business to function. Reputational damage and possible litigation	✔	➔ No change	Well-constructed IT infrastructure with failover capabilities, supported by a comprehensive asset management database and best practice maintenance processes. Multi-layered security protection system in place. Security Team continuously search for and fix vulnerabilities, including those reported by 3rd party security consultants	Review of infrastructure resilience and failover procedures following best practice guidelines. Continuous review of protection required to prevent against security threats
Commercial					
Product failure	Potential product recall causing financial and reputational loss	✔ ❖	➔ No change	Strong supplier qualification process; Intake testing/analysis; Regular review of risk matrix for every raw material handled; Use of barcode scanners on all orders to avoid mispicks; Range of testing to detect contamination; Obtain up-to-date information for all suppliers via supplier questionnaires and visits; Supplier risk assessment to determine in-house test schedule	Strengthening of new supplier procedures and increased visits to suppliers. Thorough investigation of errors leading to appropriate action such as retraining or amendment of procedures. Review and renewal of recall insurance; Testing of product recall procedure; Testing of products prior to dispatch
Commoditisation of established Treatt products	Effect on revenues and margin attrition	✻	➔ No change	Innovation and development of new products; Broaden into other associated sectors	Focusing innovation on beverage sector
Shortening Value Chain and new entrants in speciality still-based aqueous distillates	Customers demonstrating increased competence to fold, fractionate, break bulk; Increased competition	✚	➔ No change	Continued value-added in-house innovation; Rationalisation of product portfolio to eradicate low margin commoditised products; Strengthen product knowledge/sourcing	Eradication of some low margin products and further value engineering of a number of important manufactured products
Consolidation within the flavour industry	Fewer flavour customers	❖	➔ No change	Innovate and develop appealing ingredients; Broaden into beverage and other associated sectors - Earthoil; Customer diversity	Increased focus on target beverage accounts and closer collaboration on make or buy opportunities with strategic flavour customers
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	✔ ✻	➔ No change	Closer collaboration with existing suppliers; Identifying alternative suppliers where possible; Investigate alternate sources of supply of, if not identical, similar materials; Creation of alternate blends using substitutes; Long-term supply agreements put in place	Established relationships with alternate supply sources and strengthened relationships with incumbent suppliers

Strategic Report continued

Strategic Priorities

✔ Meeting customer needs ✻ Solutions in many forms ✙ Differential advantage ❖ Customer intimacy ★ Culture

Risk	*Effect*	*Strategic impact*	*Risk climate*	*Mitigation*	*Action during year*
***Commercial** (continued)*					
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	✔ ✻	➔ No change	Enhancing relationships with competitors/ brokers and other supply channels; Forward purchasing contracts for medium to longer term supply	Continuing to strengthen relationships with suppliers and customers
Legal/Regulatory					
Failure to comply with relevant UK and US environmental, H&S and other applicable legislation	HSE/EA investigation; Probable enforcement action involving fines, enforcement notices; Risk of site closure	✔	➔ No change	Detailed understanding of legislative requirements with internal involvement, consultative support and capital investment; Pro-active role in ensuring the Group's systems and procedures are adapted to ensure compliance	Continuing to work closely with the EA and relevant authorities in respect of COMAH. Safety climate survey to assess attitudes to H&S across the Group to determine actions required to ensure that the H&S culture within the business remains strong

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

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

SUSTAINABILITY REPORT

Environment

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

Environmental Performance and Strategy

The Group has for a long time managed energy, fuel and waste disposal costs with the aim of lessening the Group's environmental impact whilst reducing cost and improving efficiencies. In accordance with The Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013, the Group is required to report its greenhouse gas emissions. The release of greenhouse gases, notably carbon dioxide generated by burning fossil fuels, is understood to have an impact on global temperatures, weather patterns and weather severity, which can directly and indirectly affect the Group's business. As a supplier of natural ingredients, adverse weather conditions and disease often have an effect on crop yields resulting in higher raw material prices and limited supply. There has, for example, been a significant reduction in both the production and yield of oranges world-wide due to the bacterial disease Huonglongbing (also known as citrus greening). There has also been an increase in the price of lime oil in Mexico following last year's Hurricane Joaquin which stripped many trees of their buds and flowers, resulting in not only a smaller but heavily delayed crop.

Environmental Improvements in 2016

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

R C Treatt

- 87% reduction in fugitive Volatile Organic Compound emissions;
- 25 tonnes of material sent to anaerobic digester;
- 46% of hazardous waste recycled;
- 92% of used drums recycled; and
- reduced liquid laboratory waste collected by 79%.

Treatt USA

- redesigned the thermal fluid recycle system for one of the speciality distillation units. This will eliminate oxygenation and in turn will increase the life cycle of the thermal fluid. Additionally, the height of the expansion tank was raised above the recycle system to reduce exposure to atmosphere further prolonging the thermal fluid life cycle;
- installed a once through, oil sealed vacuum pump to replace a dry rotary vane vacuum pump. The oil sealed pump drastically reduces VOC's released to the environment in the blending operations;

- installed new air compressor water coolers and dryers in conjunction with new water/oil removal cyclones to reduce the temperature and oil content of the operations airstream. Previously, any air used in operations discharged atomised oil from the compressors and caused premature failure of critical instruments and equipment; and
- transitioned six million kilos of by-products from the natural distillate process to cattle feed and/or compost material. Previously this material was sent to landfill.

Earthoil
- replacement of an old diesel forklift with a more fuel-efficient, smoke-free model;
- installed a grease trap that separates oil and other particles from water, preventing discharge into the sewerage system. The trappings are removed every fortnight for pig feed;
- improved processing procedures have enabled more efficient recovery of by-product, known as fines, which is sold to animal feed processors. Fines are also used by Earthoil Extracts Limited as manure on the tea tree farm;
- the "Re-use & Reduce" initiative encourages staff to re-use envelopes and printing papers and to use double sided printing;
- all lights in the factory offices and on the shop floor are switched off during day light hours;
- delivery of forty new 3000 litre water tanks to farmers to enable them to catch and utilise rain water. Introduction of energy efficient gasifier stoves for farmers, which create reusable charcoal from wood, thereby reducing deforestation and smoke emissions and resulting in carbon neutral certification for Earthoil;
- there has been training and establishment of plastic collection centres in all regions where Earthoil farmers are located enabling collection of soft and hard plastics for recycling; and
- used steel epoxy drums have been converted to use as gutters to harvest rain water from roofs and carry it to the dam reservoir on the Earthoil Extracts farm. Some have also been converted to make biochar kilns.

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

The Environmental Working Group meets quarterly to discuss the various elements of the business which impact on the environment, such as energy use, waste and environmental regulations. Minutes of the meetings are made available to all staff in order to raise awareness of the impact of our business on the environment and to highlight any particular issues or concerns.

The intended site relocation of Treatt's UK operation will provide an opportunity to modernise facilities and build in appropriate and cost effective infrastructure to reduce the environmental impact of the building 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 2016 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 offices in France and China, in which a maximum of four staff are employed, have been excluded on the grounds of materiality on the basis that emissions from utility consumption, which is included in the rent, are 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.

	2016	2015
Scope 1 – Direct CO_2 emissions (tonnes CO_2e)	**1,451**	1,370
Scope 2 – Indirect CO_2 emissions (tonnes CO_2e)	**1,747**	1,842
Total tonnes CO_2e emissions	**3,198**	3,212
gCO_2e emissions per kg of product shipped	**438**	378

GHG emissions detailed in this table have been calculated using the appropriate 2016 DEFRA conversion factors, except for overseas electricity which used the 2014 and 2015 DEFRA conversion factor.

Following the decrease in total emissions in 2015 by 314 tonnes of CO_2e, there has been a further marginal decrease in emissions of 14 tonnes of CO_2e. Whilst there has been an increase in Scope 1 emissions, Scope 2 electricity usage in the UK, US and Kenya are all down with the largest decreases coming from the UK and Kenya. Electric consumption decreased at Earthoil Kenya due to reduced production in the first quarter of the financial year but at R C Treatt electric consumption actually increased; the reduction in emissions results from a change in the conversion factor. The additional electric consumption results from investment in new state of the art technical equipment, the remainder from increased hours in distillation. The increase in Scope 1 emissions is due to an increase at R C Treatt; decreases were seen at both Treatt USA and Earthoil Kenya. This increase is driven primarily by changes to chiller units incurring high one off emissions resulting from installation and decommissioning but there was also a 5% increase in gas use, which again results from increased hours in distillation.

The overall decrease in emissions is lower than might have been expected from a decrease of 1.2m kgs of product shipped during the year, resulting in an increase in the emissions per kg. The reduction in Kg shipped results from the continued strategic emphasis on manufactured value-added products and movement away from lower margin traded business, which absorb resources that can be more effectively utilised elsewhere.

Waste

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

At R C Treatt, certain employees throughout the business are appointed as Waste Champions with additional responsibility for the reduction and efficient use of waste streams in their areas. All waste streams in the UK 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

Strategic Report continued

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. Water consumption at Treatt USA is consistent with last year; Kenya is slightly down but R C Treatt shows the highest reduction resulting from repair of the two underground water leaks at the end of the last financial year.

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 offices in France and China have been excluded on the basis that water usage is included in the rent. Data has been accurately recorded from invoice information and meter readings.

	2016	2015
Total water used (m^3)	33,514	34,455
Water efficiency (litres per Kg of product shipped)	4.59	4.06

Employment Policies

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

The focus on training continued in 2016 in order to continuously improve the skills of our employees through both general and targeted training programs provided by internal and external providers. Lunch-and-learn style training provides the opportunity for knowledge sharing across the Group on a variety of subjects relevant to our business, whilst also providing the opportunity for staff to spend time together. By improving communication between colleagues these initiatives are vital to the sustainable growth of the business. The Group supports 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.

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

Employee Involvement

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

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

All-employee bonus schemes, based on the performance of the business, remain in place and employees are encouraged to become involved in the success of the Group through share-save schemes and the Share Incentive Plan (see note 25). A Group-wide consultation has taken place with all staff to determine the Group's new values. Managers across the business were involved in acting as facilitators in workshop sessions that all staff attended. These sessions provided a fantastic opportunity for staff to get together and share their thoughts in a fun and relaxed manner whilst providing valuable input into the values process. By engaging with the staff in this manner it is hoped that there will be increased buy-in to the new values.

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

Diversity

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

As a manufacturing business, it is extremely rare for women to apply for positions within the production and despatch areas, where manual handling is a significant part of the role and there are currently none employed in this capacity. However, the number of women in other areas of the business continues to increase and women account for 37% (2015: 33%) of the Group workforce and 44% of Group senior management positions (2015: 37%). Excluding production and despatch staff, women account for 42% of Group employees.

Position	Male	Female	Total
Group Directors	6	1	7
Senior Managers	24	19	43
Other Employees	170	96	266
Total Employees	**200**	**116**	**316**

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

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

Social, community and human rights issues

The Group endeavours to impact positively on the communities in which it operates and over the last few years has significantly increased its presence in the community. During the year the Group made charitable donations of £22,000 (2015: £18,000) to local and national causes. Support is provided through donations directly to charities and through a matching scheme, whereby the Group donates a percentage of funds raised by staff in sponsored events. This year staff have undertaken a number of sponsored and fundraising events for a variety of charities in which they have a particular interest including a coast-to-coast cycle ride, IRONMAN® challenge and triathlon.

Additionally, R C Treatt staff took part in the St Nicholas Hospice corporate takeover day with a large number of staff getting involved to run the St Nicholas Hospice shop in Bury St Edmunds for a day. It was a great success and raised £3,600 for the charity with Treatt taking more money than any of the other companies taking part in the event.

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

During the year staff voted on the sponsorship of local clubs and funds have been provided to four local sports clubs to assist with running costs. Additionally, Treatt has continued to sponsor local events in the community providing support and prize money to the Bury in Bloom Young and Senior Green Fingers initiatives, encouraging gardening activities at both ends of the age spectrum. We also sponsored Westgate Primary School's Maths Games room, which was officially opened in September.

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

An initiative that started last year has continued to grow, with a large number of staff volunteering to take part in working parties for community projects, either on working days or in their own time. In April we sent a party of seven volunteers to give the wooded nature garden at Westgate Nursery School a makeover. As well as repairing damage inflicted by vandals, the team cleared up winter storm debris, refreshed the planting and prepared the vegetable patch for the pupils to plant their seeds. Two days have been spent by project teams gardening at East Anglia Children's Hospice, which provides care and support to terminally ill children and their families. Another team manned a colour station at the East Anglia Children's Hospice Colour Dash, throwing paint at participants in the sponsored run.

Similar initiatives take place in the US, where a party of twenty-four Treatt volunteers spent a morning in May collecting litter from a road near the plant. In an agreement with the State of Florida, they have agreed to collect rubbish on local roads on a regular basis as part of the Florida Department of Transportation's "Adopt-A-Highway" scheme. Treatt volunteers will therefore be returning at regular intervals to collect litter and tidy up the area.

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

Long-term and trusted support and co-operation has also been a driver for positive change which has led to Earthoil's Kenyan Organic Oil Farmers Association (KOOFA) increasing from its initial ninety members to now well over six hundred producers. Earthoil has helped deliver forty new 3000 litre water tanks to members of KOOFA to enable them to catch and utilise rain water, with the remaining farmers to receive water tanks as part of this three year project. Over two thousand family members will eventually utilise the new water tanks, hoping to free up time that is usually spent fetching water, for other activities.

Additionally, over a three month period, the Earthoil team donated and installed more than forty-five stoves in 19 communities across three counties in Kenya, resulting in Earthoil Africa EPZ Limited being certified carbon neutral for a twelve month period.

Further, community funds provide additional benefits to the farmers and their families, such as scholarships. Earthoil supports a virgin coconut oil project in Samoa, which is run by a not-for-profit women's foundation – a unique venture aimed at rebuilding the economic independence of individual villages. The foundation currently works with a number of family groups, with virgin coconut oil production sites set up. By locating the production of virgin coconut oil within the villages, the returns to the villages, and to the individual family groups, are greatly increased by comparison with the more highly industrialised process.

Ethical concerns and human rights issues have always played an important role in Treatt's company philosophy and the Group's ethical and social accountability statement 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.

This strategic report was approved by the Board on 28 November 2016.

ANITA STEER
Secretary

Corporate Governance Statement

AT TREATT THERE IS A COMMITMENT TO HIGH STANDARDS OF CORPORATE GOVERNANCE THROUGHOUT THE GROUP AND THIS IS REFLECTED IN OUR GOVERNANCE PRINCIPLES, POLICIES AND PRACTICES.

Introduction from the Chairman

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

By virtue of its premium listing on the London Stock Exchange, Treatt measures its corporate governance compliance against the requirements of the 2014 UK Corporate Governance Code published by the UK Financial Reporting Council (FRC). The FCA requires each company with a premium listing to "comply or explain" its non-compliance against the Code. The Group monitors its compliance with the Code, and in this corporate governance section and throughout this annual report, areas of corporate governance compliance and non-compliance are explained by reference to the 2014 Code.

TIM JONES
Chairman

Compliance with the 2014 UK Corporate Governance Code

The Board confirms that throughout the year ended 30 September 2016 the Group has complied with the provisions set out in the 2014 UK Corporate Governance Code[1], except for provision D2.2, as explained in the Directors' Remuneration Report, since the remuneration of Group senior managers is determined by the Executive Directors as the Remuneration Committee believe that they are best placed to make this decision. However, remuneration proposals in respect of senior managers are reviewed by the Remuneration Committee. The bonuses of all senior managers in the Group are approved by the Remuneration Committee.

The Board is accountable to the Parent Company's shareholders for good governance and the statement set out below describes how the principles identified in the 2014 UK Corporate Governance Code are applied by the Group.

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

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

Leadership

Details of the Directors who served during the year, the positions they hold, and the Committees of which they are members are shown on page 96. The Board consists of five Non-executive Directors, of which Tim Jones is Chairman, and two Executive Directors, of which Daemmon Reeve is Chief Executive Officer.

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

Board Effectiveness

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

The importance of board diversity, including gender diversity which has been the subject of recent debate in respect of board composition, is recognised and supported by the Directors of Treatt plc. The Board is conscious of the benefits of diversity in the boardroom and management positions within the Group. Our policy is to recruit the best possible candidate for each individual role having regard to qualifications, experience and personality, without prejudice to a candidate's characteristics. Further details on the Group approach to diversity are given on page 32.

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

The Board considers that, with the exception of Anita Haines, all the Non-executive Directors are independent of management and free of

[1] A copy of the 2014 UK Corporate Governance Code can be obtained from www.frc.org.uk

any relationship which could materially interfere with the exercise of their independent judgement. Anita Haines is not regarded as independent, as defined by the 2014 UK Corporate Governance Code, having recently served as an Executive Director. Accordingly, Anita Haines does not serve on either the Audit or Remuneration Committees. All Non-executive Directors receive a fixed fee for their services. However, in exceptional circumstances, where significant additional time commitment is required, a Non-executive Director may, if approved by the Board or Remuneration Committee as required, be paid an additional fee in accordance with the Remuneration Policy. The Board is satisfied that the Chairman's other commitments do not detract from the extent or the quality of the time which he is able to devote to the Group.

The Board meets formally at least five times each year and more frequently where business needs require, with attendance in person or by video conference required at each meeting. In addition, regular contact is maintained by email and telephone with written updates provided in respect of on-going issues, enabling regular input from all Board members. It is a commitment of the Board to hold a meeting in the US on a biennial basis, with the next meeting to be held at Treatt USA in 2017.

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

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

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

Nomination Committee

Membership and Meetings

Members of the Nomination Committee throughout the year are shown on page 96. The Nomination Committee has met three times during the course of the year.

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 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 vacancies as and when they arise;
- succession planning for Directors, in particular the Chairman and CEO, taking into account the challenges and opportunities facing the Group and the skills and expertise needed on the Board for the future; and
- review the results of the Board performance evaluation process that relate to the composition of the Board and to assess whether the Non-executive Directors are dedicating sufficient time to fulfilment of their duties.

Activities since the last report

- consideration of the appointment of a Non-executive Director following the resignation of Ian Neil;
- consideration of the appointment of a new Chairman to the Remuneration Committee;
- consideration of the appointment of a new Senior Independent Director;
- review of committee membership and recommendation to the Board on the appointment of Richard Illek to the Nomination and Remuneration Committees;
- review of the results of the Board evaluation process and consideration of training needs;
- review of the performance of the Directors;
- continuation of structured succession plans.

Appointments to the Board

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

During the year Richard Illek was appointed as a Non-executive Director. During succession planning it had been recognised that experience from a customer perspective within the FMCG beverage sector of the industry, which is a strategic priority for Treatt, was not represented on the Board. Richard was a senior executive with over 28 years' experience with PepsiCo. It was thought that his experience, gained from a variety of roles within PepsiCo, would provide valuable insight into the beverage sector and accordingly an approach was made. Richard attended a series of interviews with the Nomination Committee and Executive Directors and following satisfactory completion of this process, the appointment was approved by the full Board. The role was not openly advertised due to the identification of a candidate with the required skills and experience and successful completion of the recruitment process.

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

Board Evaluation

The Nomination Committee is also responsible for the annual evaluation of the Board, its committees and its Directors. During the year an evaluation of the Board, its committees and each individual Director is carried out internally, with the assistance of the Company Secretary, as the Board believes it has the appropriate resources and experience to undertake the reviews. The Board and committee reviews are conducted under the supervision of the appropriate Chairman. Following the use of an external facilitator last year, the Board evaluation process involved completion, by each Board member, of a comprehensive anonymous questionnaire designed to evaluate each of the essential components of an effective board. The results, which were benchmarked against a prior year's evaluation, demonstrated that performance is effective overall. These results were reported to the Committee and action points agreed to further improve performance. 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 is evaluated by the Chairman, in conjunction with the Chief Executive Officer in the case of the other Executive Director. The Chairman is evaluated by the Chief Executive Officer and an Independent Non-executive Director. The process includes individual performance meetings, at which past performance is discussed and evaluated and future objectives established. In the event that training and development needs are identified during the evaluation process, suitable resources or training are provided. Having undertaken training during each of the last few years, no training needs were identified for this year. The Board has spent time focusing on its objectives, approved last year, which included further work in respect of risk management and succession planning.

Succession Planning

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

Audit Committee

Membership and Meetings

Members of the Audit Committee throughout the year are shown on page 96. Jeff Iliffe joined the Committee as Chairman in February 2013 and is deemed by the Board to have significant, recent and relevant financial experience. He is a Chartered Accountant with over 20 years' experience in the financing and management of companies, both in the City of London and in industry.

The Committee met three times during the year. The auditor attended two of these meetings other than when their appointment or performance was being reviewed. The Chief Executive Officer, Finance Director and other senior finance staff attend as and when 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 Finance Director to discuss matters considered relevant to the Committee's duties.

Role and Responsibilities

The main responsibilities of the Audit Committee are:

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

Activities since the last report

- meeting with the audit partner and manager to agree the audit plan and identification of risk;
- reviewing the auditor's findings, management's response and ensuring robust challenge;
- reviewing the auditor's performance and the audit process to ensure that they remain objective and independent, and to assess the effectiveness of the audit;
- give consideration to any whistleblowing reports (of which there were none during the year);
- the Group's annual report for 2016 was reviewed to ensure that taken as a whole; it was fair, balanced and understandable. This included consideration of a report from the auditor on their audit and review of the financial statements and confirmation from management;
- 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;
- briefing the Board in its discussions on whether an audit or formal auditors' review should take place at the half year;
- a review of the performance of the Audit Committee;
- consideration of the timing of an audit tender process;
- approval of the fees paid to the auditors for audit and non-audit work; and
- review of the level of non-audit related services provided by RSM UK during the year.

Financial Reporting

During the year the Committee and the Board monitors 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 2016 annual report was reviewed at a Committee meeting in November 2016; after due challenge and debate the Committee was content that the assumptions made and judgements applied in these areas, which where possible are supported by external advice or other corroborative evidence, are reasonable and therefore agreed with management recommendations.

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

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

Risk Management

The Committee continue to consider the requirements of the 2014 edition of the UK Corporate Governance Code ("the Code") and the FRC Guidance on Audit Committees. Last year, in light of the increased emphasis on risk in the Code, the Board reviewed the process of risk management and whether risk should fall within the remit of the Audit Committee, with the Board retaining overall responsibility. It was decided that due to the size of the Group, risk management, internal controls, approval of the going concern statement and the assessment of the long term viability statement should remain with the full Board, but as the Group continues to grow, this will remain under review.

External Auditor Assessment

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

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

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

External Auditor Independence and Consideration of a Tendering Process

The Board and the external auditors have arrangements to safeguard the independence and objectivity of the external auditor, which were reviewed and deemed satisfactory. The incumbent auditors, RSM UK Audit LLP, were appointed in 2009 following an audit tender process. They are appointed on an annual rolling contract but with a long-term agreement on fees, which was renegotiated during the 2014 financial year. The Committee considered "The Statutory Auditors and Third Country Auditors Regulations 2016" which will result in the mandatory rotation of auditors by 2020, and whether an audit tender process should be undertaken prior to the 2017 audit. It was decided that, in view of these Regulations, it was not currently necessary. The current audit partner will be subject to rotation prior to the 2017 audit. The Committee has therefore recommended to the Board that RSM UK Audit LLP be reappointed in 2017.

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. Non-audit fees are generally paid mainly in respect of tax compliance services and advice on share schemes. Following the publication of the FRC Revised Ethical Standard 2016, RSM no longer provide tax compliance and other tax services to the Group. The Group has a policy to ensure that the provision of such services does not impair their independence or objectivity and when considering the use of the auditor to undertake non-audit assignments, management give consideration at all times to the provisions of the FRC Guidance on Audit Committees with regard to the preservation of independence.

Audit Quality Review

During the year the FRC's Audit Quality Review team reviewed RSM UK Audit LLP's files for the 2015 audit and the Chairman of the Audit Committee received a full copy of their findings. The focus of the review and their reporting is on identifying areas where improvements are required rather than highlighting areas performed to or above the expected level. The Audit Committee discussed the review's findings with the auditors and is satisfied that they have addressed the one matter noted in relation to the audit process for the current year audit.

Effectiveness of the Committee

The effectiveness of the Committee was considered as part of the Board evaluation detailed on page 35 and reviewed as part of the Committee's own processes. The Committee received positive feedback on the way it challenges the business and was seen as open, transparent and effective.

Review of the 2016 Annual Report and Financial Statements

Amongst the matters considered by the Committee were the key accounting issues, matters and judgement in relation to the Group's 2016 annual report and financial statements relating to:

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

Remuneration Committee

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

Full details of the Directors' remuneration and a statement of the Group's remuneration policy are set out in the Directors' Remuneration Report appearing on pages 39 to 50. Members of the Remuneration Committee throughout the year are shown on page 96. The Chief Executive Officer attends meetings of the Remuneration Committee to discuss the performance of the Finance Director and make proposals as necessary, but is not present when his own position is being discussed.

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

Board Accountability

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

Corporate Governance Statement continued

Attendance at meetings

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

		Board	Audit Committee	Nomination Committee	Remuneration Committee
Number of meetings held in year		**7**	**3**	**3**	**5**
Daemmon Reeve	Chief Executive Officer	7	N/A	3	N/A
Richard Hope	Finance Director	7	N/A	N/A	N/A
Tim Jones	Non-executive Director and Chairman	Chairman 7	3	Chairman 3	5
Anita Haines	Non-executive Director	7	N/A	3	N/A
Jeff Iliffe	Non-executive Director	6	Chairman 2	3	4
Richard Illek (appointed 1 June 2016)	Non-executive Director	2	N/A	0	1
David Johnston	Senior Independent Non-executive Director	7	3	3	Chairman (4) 5
Ian Neil (retired 29 January 2016)	Senior Independent Non-executive Director	2	1	2	Chairman 1

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

Financial and Internal Control

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

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

Financial Reporting

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

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

Financial and Accounting Principles

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

Information Technology

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

Capital Investment

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

Risk Assessment and Information

Operational management in conjunction with the Executive Directors, who report regularly to the Board, are responsible for identification and evaluation of significant risks applicable to their area of business and the design and operation of suitable internal controls. Details of the principal risks associated with the Group's activities are given in the Strategic Report on pages 26 to 30.

Relations with Shareholders

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

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

This report was approved by the Board on 28 November 2016.

ANITA STEER
Secretary

Directors' Remuneration Report

ANNUAL STATEMENT

Introduction

As Chairman of the Remuneration Committee, I am pleased to present our report on Directors' remuneration for 2016.

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 2014 UK Corporate Governance Code relating to Directors' remuneration. In accordance with the Act, the Remuneration Report is divided into two sections, a Remuneration Policy Report, which describes our approach to remuneration, and an Implementation Report, which details the remuneration paid to the Directors during the financial year under review. The Remuneration Policy Report and the Implementation Report will be put to binding and advisory votes respectively at the Annual General Meeting on 27 January 2017. Whilst the Remuneration Policy was approved by shareholders at the 2015 Annual General Meeting, a proposed change to the Executive Director's bonus scheme, requires further shareholder approval.

Looking back at 2016

As detailed elsewhere in this report, the Group performed well in 2016, exceeding its original expectations for adjusted pre-tax profit and earnings per share. When considering the performance targets in respect of the annual bonus for the year to 30 September 2016, the Committee was conscious of making the top end very challenging, yet achievable. In order to obtain the maximum bonus award under the Executive Directors' Annual Bonus Scheme, Group adjusted profit before tax had to exceed 115% of the prior year's adjusted profit before tax. Threshold performance (below which no bonus award would be made) for adjusted profit before tax of 85% of prior year adjusted profit before tax, would result in the award of a 4% bonus. The Committee regards this scale, and basis of comparison, as appropriate as recent years have seen significant changes in the business and the need to embed a new strategy driving sustainable profitability against a long history of gains and losses from movements in raw material prices and fluctuating profits. The cultural change required across the Group was significant and despite significant improvements, it continues to be a central focus of the Group's strategy. On this basis, the Committee assessed that another record Group performance in the year justified a bonus payment of 88% of salary for the Executive Directors, being 88% of the maximum bonus potential, in accordance with the rules of the Executive Directors' Annual Bonus Scheme.

Looking ahead to 2017

The base salaries of the Executive Directors were increased with effect from 1 October 2016. Daemmon Reeve's salary was increased by 1.5%, in line with the basic increase of UK staff. In accordance with the frequency set out in the Remuneration Policy, the salary of Richard Hope was benchmarked against other Financial Directors of Fledgling Index companies and was also increased by 1.5%, it having been found that there was no misalignment with benchmarking data.

A review of performance conditions in respect of all Group bonus schemes was undertaken during the year and changes are proposed to the Executive Directors bonus scheme, subject to the approval of the Remuneration Policy at the Annual General Meeting in 2017. Previously, whilst the new strategy was being embedded, the improvement in financial performance came from both greater focus on cost control as well as the transitioning of the business to focus more on value-added ingredient solutions. Accordingly, an aggressive growth of 15% in adjusted profit before tax against prior year was required to trigger a maximum bonus award. Given that contribution to profits from cost control has made significant progress and that the Group operates in a mature business segment, dominated by large multi-national businesses where growth rarely exceeds 2.5%, the Committee felt that current stretched target of 15% growth in adjusted profit before tax is now unrealistic. The Committee strongly believes that in order to motivate behaviour a performance criteria must be stretching but achievable. Therefore, to encourage continued growth of the business, the Remuneration Committee propose a maximum bonus pay-out at 110% or more of prior year's adjusted profit before tax, whilst narrowing the scale to reduce bonuses at the lower end of performance so that threshold is 96% of prior year's adjusted profit before tax, at which the bonus award would be 5% of basic salary. The Committee will at all times retain discretion in respect of the exceptional and other items included within adjusted profit before tax. A summary of the performance measure is set out below. The Committee believes that these changes to the scheme will continue to encourage sustainable growth and the delivery of the Group's strategic objectives.

Performance Measure	Threshold	Target	Maximum
Adjusted profit before tax for prior year	96%	102.5%	110%
Bonus award	5% of basic salary	40% of basic salary	100% of basic salary

Remuneration policy

The aim of our remuneration policy is to attract and retain appropriately skilled and experienced Directors with the ability to deliver the Group's strategic objectives and obtain good returns for shareholders in accordance with the Group's values. This may be achieved through an appropriate combination of salary, benefits and performance-related longer term incentives, which align the interests of Directors with shareholders. Following consultation with the Group's major shareholders, a share retention policy was adopted by the Board in 2014, which imposes a shareholding requirement of 200% of salary on the Chief Executive Officer and 150% of salary on the Finance Director. The Directors are not permitted to sell any shares, except to pay an exercise price and all applicable taxes due in respect of an award, until the shareholding requirement is met. Daemmon Reeve has continued throughout the year to add to his shareholding and currently holds 120% of his salary (as at 30 September 2016), details of which are on page 48 of the Implementation Report. Richard Hope has exceeded his shareholding requirement but continues to add to his shareholding.

Historically, the level of share-based incentives granted to Directors has been relatively low but it is recognised that this is an important aspect of remuneration, which encourages focus on the longer-term interests of shareholders and Directors alike. Therefore the grant of appropriate awards of share-based incentives, with stretching performance conditions, is considered annually by the Remuneration Committee. As a result of consultation with major shareholders, awards made under the Long Term Incentive Plan are subject to a one-year holding period following vesting, save that a proportion of the shares will be permitted to be sold in order to satisfy any tax liability arising upon either vesting or exercise.

The Committee believes that this policy continues to be aligned with our business strategy, set out elsewhere in this report, in driving the sustainable growth in profits for the long-term benefit of the business and its stakeholders and has shown positive results with a continual rise in the profits of the business. The Committee is also satisfied that within the remuneration policy, and particularly in respect of the setting of performance targets, there is a sufficient balance between encouraging entrepreneurial behaviour without encouraging excessive risk-taking.

In a departure from provision D2.2 of the 2014 UK Corporate Governance Code, the remuneration of Group senior management is determined by the Executive Directors since the Board believes that the Executive Directors are best placed to make this decision. However, remuneration proposals in respect of senior managers are reviewed and monitored by the Committee

Directors' Remuneration Report continued

to ensure consistency and proportionality. The bonuses of all senior managers in the Group are approved by the Committee.

Decisions made during the year

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

- approval of the 2015 Directors' Remuneration Report;
- agreement of the bonuses payable for the 2015 financial year;
- grant of options to Directors under the Treatt LTIP and the setting of performance conditions;
- review of the remuneration package of the CEO following relocation to the UK;
- grant of options to senior management and key employees and the setting of performance conditions;
- review and amendment of Executive Directors bonus scheme performance condition;
- review of the remuneration policy and the remuneration arrangements for the Executive Directors and Chairman;
- review of salary levels for the Executive Directors and agreement of salary increases for the 2017 financial year;
- to consider 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; and
- review of the Share Retention Policy.

During the year all elements of the packages of the Executive Directors were reviewed and no significant changes have been made, other than to the parameters of the Executive Directors bonus scheme, as stated above.

I hope that shareholders will support the resolutions on Directors remuneration; I will be available at the AGM to answer any questions you may have.

DAVID JOHNSTON
Chairman
Remuneration Committee

Members of the Committee are shown on page 96 and for full biographies of the Committee members see page 25. The terms of reference of the Committee can be found on the Treatt website at www.treatt.com.

POLICY SECTION

Remuneration Policy Report

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

- salaries should be competitive but not excessive when compared to similar 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; and
- Directors should invest in and retain shares in Treatt.

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

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

Executive Directors' remuneration

The following table sets out a summary of each element of the Executive Directors' remuneration, how it operates, the maximum opportunity available, applicable performance metrics and changes to remuneration for the 2017 financial year:

Element – Purpose and link to strategy	Operation	Maximum Opportunity	Performance Metrics	Changes for 2017 financial year
Base salary 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	Reviewed annually by the Committee with changes taking effect from 1 October unless a change in responsibility requires an interim review Influenced by personal performance and by the increase in salaries of other Group employees Normally benchmarked at intervals of 3 years against similar companies and targeted broadly at the median level Discretion may be exercised for the purpose of retention	Excluding a review required by a change in role or responsibility, to align with benchmarking, or in exceptional circumstances, the annual increase should not exceed the average salary increase of employees within the Group	Individual and company performance are considered	No changes have been made to the salary review process Base salary increase for Daemmon Reeve is consistent with the basic increase of UK employees at 1.5% Base salary increase for Richard Hope, following benchmarking is 1.5%

Element – Purpose and link to strategy	Operation	Maximum Opportunity	Performance Metrics	Changes for 2017 financial year
Benefits Help recruit and retain high calibre Executive Directors	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; 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 Discretion may be exercised to provide appropriate benefits that might become payable as a result of a new business requirement, such as a need for a Director to relocate	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	Not applicable	Following relocation back to the UK, Daemmon Reeve receives benefits in line with those received by UK employees
Annual bonus (Note 1) Provides an element of at risk pay, which incentivises the achievement of good annual financial results Aligns Directors' interests with shareholders	The rules of the Executive Directors Bonus Scheme and the performance targets are reviewed every 3 years 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 The Committee will at all times retain discretion in respect of the exceptional and other items included within adjusted profit before tax	100% of salary	Bonuses are based on the growth in adjusted Group profit before tax compared to the prior financial year Bonus payments range from 4% of salary at threshold level rising incrementally to a maximum of 100% of salary where adjusted Group profit before tax is 115% or more of prior year The Committee has discretion to reduce bonus 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	For 2017, bonuses are to be based on the growth in adjusted Group profit before tax compared to the prior financial year 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 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

Directors' Remuneration Report continued

Element – Purpose and link to strategy	Operation	Maximum Opportunity	Performance Metrics	Changes for 2017 financial year
Long Term Incentive Plan (Note 2) Incentivises Directors to achieve returns for shareholders over a longer time frame Aligns Directors interests with shareholders	The LTIP was approved by shareholders at the AGM in February 2014 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 3 years Discretion may be exercised in respect of the performance criteria by replacing the current measure with a similarly appropriate measure or combination of measures Awards will be subject to a one 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	100% of salary based on market value of shares at date of grant	The vesting of the awards shall be subject to growth in adjusted basic EPS exceeding a minimum level during the period from date of grant to date of vesting The performance criterion over a 3 year period is the average annual growth in adjusted basic EPS. 30% of award vests where average annual growth equals or exceeds 3% rising incrementally to 100% where average annual growth equals or exceeds 10% Awards lapse if performance criteria are not met at the end of the three year performance period	None
Share Retention Policy	Holding requirements: CEO – 200% of basic salary FD – 150% of basic salary Directors are required to retain shares acquired under share-based incentive awards until the holding requirements are met, save that they are permitted to sell sufficient shares to pay any exercise price and all applicable taxes due in respect of that award	Not applicable	Not applicable	None
Pension Help recruit and retain high calibre Executive Directors and to provide a competitive package relative to the size of the Group	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	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)	Not applicable	Following relocation back to the UK, Daemmon Reeve receives 15% contribution, having been a member of the defined benefit pension scheme

Element – Purpose and link to strategy	Operation	Maximum Opportunity	Performance Metrics	Changes for 2017 financial year
Recruitment of Executive Directors Enable recruitment of high calibre Executive Directors able to contribute to the success of the Group	Salary will be set to reflect skills and experience of incoming Director and market rate for the role to be undertaken Existing benefits and incentives of the Group to be used with participation on the same basis as existing Directors Payment of relocation expenses where relevant In the event of an internal promotion any commitments made prior to promotion may continue to be honoured when they would otherwise be inconsistent with this policy Discretion may be exercised in exceptional circumstances and existing entitlements with current employer, such as bonus and share schemes, may be bought out on a like-for-like basis and subject to performance conditions	Recruitment awards are subject to the maximum value of any outstanding awards forgone by the recruit	Based on existing Treatt performance conditions	None
Clawback To ensure Executive Directors do not benefit from errors or misconduct	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	Not applicable	Not applicable	None

Notes

1 The performance targets were set by the Remuneration Committee and are reviewed annually to ensure that they continue to incentivise strong financial performance. The Committee continues to believe that this performance measure offers a balance between the needs of shareholders, in providing good profitability and providing a measure of performance over which the Executive Directors have direct influence. The Committee considers that the level of performance required 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.

2 Performance targets 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.

Awards under the LTIP may be made to Senior Executives and other key employees who have significant influence over the Group's ability to meet its strategic targets with such awards being subject to the achievement of performance conditions set by the Committee at the date of grant, consistent with those of Executive Directors.

Non-executive Directors' remuneration

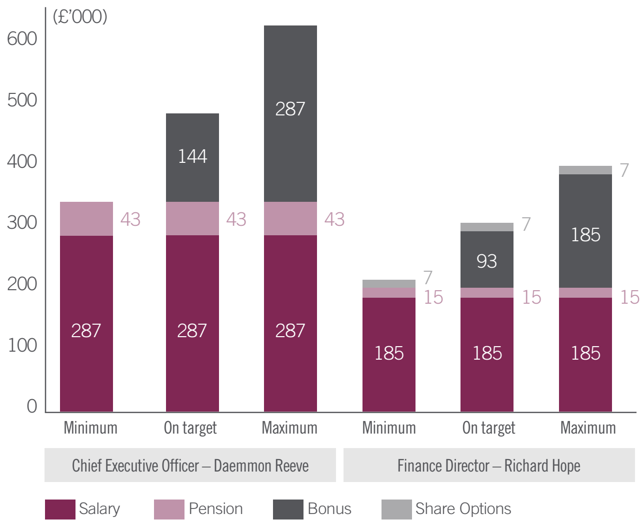
Element – Purpose and link to strategy	Operation	Maximum Opportunity	Changes for 2017 financial year
Fees To recruit high calibre Non-executive Directors To reward additional responsibility by virtue of position as Chairman of the Board or Chairman of a Committee	Subject to an aggregate limit within the Articles of Association, which was last approved by shareholders at the AGM in February 2014 Reviewed annually for each Non-executive Director with changes taking effect from 1 October The Chairman's fees are reviewed by the Committee and the other Non-executives' fees are reviewed by the Board (excluding the Non-executives) Influenced by the increase in salaries of other Group employees and by personal performance Benchmarked against similar companies and targeted broadly at the median level 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	Excluding a review required by a change in role or responsibility or to align with benchmarking the annual increase should not exceed the average increase of employees within the Group	Fee increases for all Non-executive directors are consistent with the basic increase of UK employees at 1.5%

Where exceptional circumstances arise, the Committee shall have discretion to approve payments not specifically referred to above where the Committee, acting in good faith and taking into account the needs of the wider business, considers it reasonable and appropriate to do so.

Illustration of remuneration policy

The graphs below provide estimates of the potential future reward for each of the Executive Directors based on their current roles, the remuneration policy outlined on pages 39 to 50 and base salaries as at 1 October 2016.

Remuneration policy illustration



Only those share options which potentially vest in 2017 have been included and have been calculated as the difference in market value at 30 September 2016, being £2.10, and the option price.

Comparison of remuneration policy

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 addition, when setting remuneration levels for the Executive Directors the Committee takes account of the levels of remuneration received by executive directors of similar companies that are selected on the grounds of:

- size in terms of turnover, profits and number of people employed;
- a ranking within the FTSE Fledgling Index or FTSE Small Cap Index;
- the diversity and complexity of the business;
- the geographical spread of its business; and
- market segment.

Whilst remuneration consultants have not been engaged, regular benchmarking is undertaken against companies within the FTSE Fledgling and Small Cap Indexes using salary reports and surveys of established remuneration consultants.

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 twelve months' notice by either party is appropriate.

Summary of Director's service contracts as at 30 September 2016:

	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, except in exceptional circumstances where additional incentive is required in order to secure the services of an outstanding candidate.

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 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 2014 UK Corporate Governance Code notice periods shall not exceed a maximum of twelve months.

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

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

Directors' Remuneration Report continued

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 details of this policy and welcomed feedback received from them. The views of these shareholders were taken into consideration in adopting the share retention policy, clawback and the one year holding period for LTIPs. The Committee will also consult with major shareholders prior to any material changes to the remuneration policy.

This Remuneration Policy, if approved at the 2017 Annual General Meeting, shall be effective immediately and remain effective until it is next required to be approved by shareholders.

IMPLEMENTATION REPORT

The following section of this report provides details of the implementation of the policy for the year ended 30 September 2016.

Directors' Remuneration (audited)

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

	Daemmon Reeve		Richard Hope	
Executive Directors:	**2016 £'000**	2015 £'000	**2016 £'000**	2015 £'000
Salary	**287**	233	**182**	179
Taxable benefits (Note 1)	**—**	3	**—**	—
Annual bonus (Note 2)	**252**	214	**160**	165
Share options vesting in the financial year	**—**	—	**16**	6
Pension (Note 3)	**41**	20	**14**	19
	580	470	**372**	369

	Fees	
Non-executive Directors:	**2016 £'000**	2015 £'000
Tim Jones	**61**	53
Anita Haines	**33**	32
Jeff Iliffe	**37**	35
Richard Illek (from 1 June 2016)	**11**	—
David Johnston	**36**	33
Ian Neil (until 29 January 2016)	**12**	35
	190	188

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

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

	2016	2015
Daemmon Reeve	**88%**	92%
Richard Hope	**88%**	92%

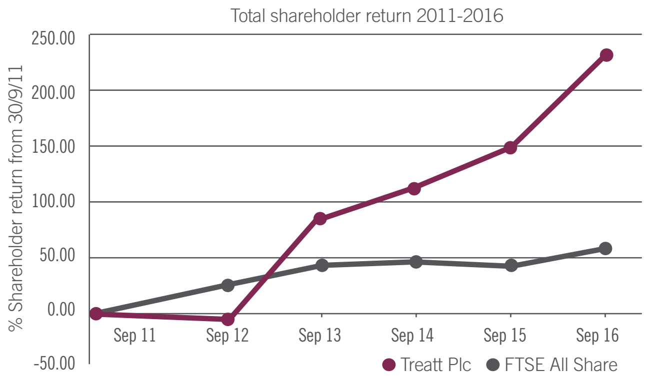
The proportion of fixed and variable pay, exclusive of pension, benefits and share options, is shown below for the Executive Directors:

	Basic Salary		Annual Bonus	
	2016	2015	**2016**	2015
Daemmon Reeve	**53%**	52%	**47%**	48%
Richard Hope	**53%**	52%	**47%**	48%

Note 3: Richard Hope's pension contributions include pay in lieu of pension after deduction of employers' NI.

Performance graph

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



CEO remuneration

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

	2016	2015	2014	2013	2012[2]
Total remuneration (£'000)	**580**	470	436	405	274
Annual bonus as % of maximum[1]	**88%**	92%	95%	85%	11%[3]
Share options vesting as % of maximum[3]	**N/A**[4]	100%	100%	100%	100%

1 The CEO Remuneration for 2012 is the combined remuneration paid to the current and previous CEO for the periods when they held that post.
2 The 2012 annual bonus only related to two months of the financial year.
3 All share options vested in full as they were all-employee share options which were not subject to performance conditions.
4 There were no options which vested during the year.

The percentage change in remuneration for 2016 of the Director undertaking the role of CEO, compared to employees as a whole was as follows:

	Salaries[2]	**Bonus**[2]
CEO	13.4%	8.2%
Employees[1]	3.5%	1.8%

1 The employees used for comparison are those UK and US employees who, for the salary comparison, were employed for the whole of the 2016 financial year, and for bonuses, for the whole of both the 2015 and 2016 financial years.
2 The changes in salaries and bonuses have been calculated on a constant currency basis for USD payments, using the average exchange rate for 2016.

Directors' Remuneration Report continued

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:

	2016	2015	Movement
Total remuneration[1]	**11,635**	10, 676	**+9%**
Dividends[2]	**2,095**	1,978	**+6%**
Current tax[3]	**2,354**	1,909	**+23%**

1 Total remuneration includes wages, salaries and pension costs as disclosed in note 6.
2 Dividends paid in the financial year as disclosed in note 10.
3 Current tax payable in respect of the financial year as disclosed in note 9.

Directors' interests (audited)

The Directors who held office at 30 September 2016 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	
	2016	2015	**2016**	2015	**2016**	2015
Executive Directors						
Daemmon Reeve	**159,001**	131,462	**460,992**	284,586	**13,043**	5,710
Richard Hope	**199,520**	176,400	**245,868**	148,010	**13,238**	11,874
Non-executive Directors						
Tim Jones	**120,751**	75,877	**—**	—	**—**	—
Anita Haines	**50,680**	50,680	**—**	—	**—**	—

Between 1 October 2016 and 24 November 2016, the latest date practicable to obtain the information prior to publication of this document the following changes occurred:

Daemmon Reeve purchased 891 shares under a Dividend Reinvestment Plan
Richard Hope purchased 1,193 shares under Dividend Reinvestment Plans

The table below shows the value of Executive Directors' interests in shares as at 30 September 2016 as a percentage of their base salary:

	Value of shares held outright or vested		Base salary[1]		Value of interest as % of base salary		Target % of base salary
	2016 £'000	2015 £'000	**2016 £'000**	2015 £'000	**2016 %**	2015 %	
Daemmon Reeve	**334**	212	**287**	233	**116%**	91%	**200%**
Richard Hope	**419**	285	**182**	179	**230%**	159%	**150%**

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

Share option schemes (audited)

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

	Scheme	Basis	Date of grant	Share price at date of grant	Face value £'000	Min performance award	Performance end date
Daemmon Reeve	SAYE 2016[1]	All-staff	15 Jul 16	£1.725	22	N/A	N/A
	LTIP 2015[2]	Executive	14 Dec 15	£1.700	299	30%	30/9/18
Richard Hope	SAYE 2016[1]	All-staff	15 Jul 16	£1.725	7	N/A	N/A
	LTIP 2015[2]	Executive	14 Dec 15	£1.700	188	30%	30/9/18

1 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.

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

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

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

	Exercise dates	Exercise price	At 1 Oct 2015	Granted during the Year	Exercised during the Year	Expired during the Year	At 30 Sept 2016
Daemmon Reeve	Jul 2016	137.0p	—	5,710	—	(5,710)	**—**
	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 – Mar 2019	Nil	—	176,040	—	—	**176,040**
			284,952	194,793	—	(5,710)	**474,035**
Richard Hope	Sep 2016 – Feb 2017	97.8p	2,940	—	(2,940)	—	**—**
	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**
	Dec 2015 – Dec 2022	78.0p	12,820	—	(12,820)	—	**—**
	Dec 2016 – Dec 2023	147.2p	6,790	—	—	—	**6,790**
	Dec 2017 – Dec 2024	Nil	128,400	—	—	—	**128,400**
	Dec 2018 – Dec 2025	Nil	—	110,678	—	—	**110,678**
			159,884	114,982	(15,760)	—	**259,106**

The aggregate amount of gains made by the Directors on the exercise of share options in the year was £16,000 (2015: £6,000).

There have been no further changes in the interests of the Directors to subscribe for or acquire shares between 1 October 2016 and 24 November 2016, the latest date practicable to obtain the information prior to publication of this document.

The market price of the shares at 30 September 2016 was £2.10 and the range during the financial year was £1.57 to £2.10. All market price figures are derived from the Daily Official List of the London Stock Exchange.

Directors’ Remuneration Report continued

Pensions (audited)

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

The pension entitlement is as follows:

	Normal retirement date	Accrued total pension at	
		2016 **£**	2015 £
Daemmon Reeve	24 Sep 2036	**20,988**	20,985

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

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

	2016 **£’000**	2015 £’000
Daemmon Reeve	**41**	20
Richard Hope*	**14**	19

* Richard Hope’s 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 29 January 2016, the votes cast in respect of the resolution to approve the Directors’ Remuneration Report, were as follows:

For: 99.90% Against: 0.10% Votes withheld: 16,300

Audit notes

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

This report was approved by the Board and signed on its behalf on 28 November 2016.

ANITA STEER
Secretary

Independent Auditor's Report to the Members of Treatt plc

We have audited the Group and Parent Company financial statements ("the financial statements") on pages 53 to 90. 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.

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

Respective responsibilities of directors and auditor

As more fully explained in the Directors' Responsibilities Statement set out on page 23, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at http://www.frc.org.uk/auditscopeukprivate.

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and the Parent Company's affairs as at 30 September 2016 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.

Opinion 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;
- 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 information given in the Corporate Governance Statement set out on pages 34 to 38 in compliance with rules 7.2.5 and 7.2.6 in the Disclosure Rules and Transparency Rules sourcebook issued by the Financial Conduct Authority (information about internal control and risk management systems in relation to financial reporting processes and about share capital structures) is consistent with the financial statements.

Directors' assessment of the principal risks that would threaten the solvency or liquidity of the Group

We have nothing material to add or to draw attention to in relation to:

- the Directors' confirmation 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 or liquidity;
- the disclosures in the annual report that describe those risks and explain how they are being managed or mitigated;
- the Directors' statement in the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them, and their identification of any material uncertainties in the Group's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements; and
- the Directors' explanation 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.

Matters on which we are required to report by exception

We have nothing to report in respect of the following:

- Under the ISAs (UK and Ireland) we are required to report to you if, in our opinion, information in the annual report is:
  - materially inconsistent with the information in the audited financial statements; or
  - apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Group acquired in the course of performing our audit; or
  - otherwise misleading.

In particular, we are required to consider whether we have identified any inconsistencies between our knowledge acquired during the audit and the Directors' statement that they consider the annual report is fair, balanced and understandable and whether the annual report appropriately discloses those matters that we communicated to the Audit Committee which we consider should have been disclosed.

- Under the Companies Act 2006 we are required 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; or
  - a Corporate Governance Statement has not been prepared by the Parent Company.

- Under the Listing Rules we are required to review:
  - the Directors' statement, set out on page 21, in relation to going concern and longer-term viability; and
  - the part of the Corporate Governance Statement on page 34 relating to the Parent Company's compliance with the provisions of the 2014 UK Corporate Governance Code specified for our review.

Independent Auditor's Report to the Members of Treatt plc continued

Our assessment of risks of material misstatement

We identified the following risk as being that which had the most significant impact on our audit strategy and set out below how this was addressed by the scope of our audit:

- inventory provisions

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

Our application of materiality

When establishing our overall audit strategy, we set certain thresholds which help us to determine the nature, timing and extent of our audit procedures and to evaluate the effects of misstatements, both individually and on the financial statements as a whole. During planning we determined a magnitude of uncorrected misstatements that we judge would be material for the financial statements as a whole (FSM). During planning FSM was calculated as £475,000, 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 £15,000, as well as differences below those thresholds that, in our view, warranted reporting on qualitative grounds.

An overview of the scope of our audit

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

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

CHARLES FRAY (Senior Statutory Auditor)
For and on behalf of RSM UK AUDIT LLP
Statutory Auditor

Chartered Accountants
Abbotsgate House
Hollow Road
Bury St Edmunds
Suffolk IP32 7FA

28 November 2016

Group Income Statement

for the year ended 30 September 2016

	Notes	**2016 £'000**	2015 £'000
Revenue	4	**88,040**	85,934
Cost of sales		**(67,639)**	(66,955)
Gross profit		**20,401**	18,979
Administrative expenses		**(10,852)**	(10,289)
Operating profit[1]	5	**9,549**	8,690
Net finance costs	7	**(703)**	(740)
Profit before taxation and exceptional items		**8,846**	7,950
Exceptional items	8	**(553)**	(174)
Profit before taxation		**8,293**	7,776
Taxation	9	**(2,144)**	(1,786)
Profit for the period attributable to owners of the Parent Company		**6,149**	5,990
Earnings per share			
Basic	11	**11.85p**	11.64p
Diluted	11	**11.68p**	11.55p
Adjusted basic[2]	11	**12.84p**	11.94p
Adjusted diluted[2]	11	**12.65p**	11.85p

[1] Operating profit is calculated as profit before net finance costs, exceptional items and taxation.
[2] All adjusted measures exclude exceptional items, and in the case of earnings per share the related tax effect, details of which are given in note 8.

All amounts relate to continuing operations

Notes 1 - 30 form part of these financial statements

Group Statement of Comprehensive Income

for the year ended 30 September 2016

	2016 £'000	2015 £'000
Profit for the year attributable to owners of the Parent Company	**6,149**	5,990
Other comprehensive income/(expense):		
Items that may be reclassified subsequently to profit or loss:		
Currency translation differences on foreign currency net investments	**2,576**	830
Current tax on foreign currency translation differences	**—**	(2)
Fair value movement on cash flow hedges	**120**	(404)
Deferred tax on fair value movement	**(47)**	81
	2,649	505
Items that will not be reclassified subsequently to profit or loss:		
Actuarial loss on defined benefit pension scheme	**(4,297)**	(638)
Current tax credit on actuarial loss	**—**	43
Deferred tax credit on actuarial loss	**643**	86
	(3,654)	(509)
Other comprehensive expense for the year	**(1,005)**	(4)
Total comprehensive income for the year attributable to owners of the Parent Company	**5,144**	5,986

Notes 1 – 30 form part of these financial statements

Group and Parent Company Statements of Changes in Equity

for the year ended 30 September 2016

Group	Share capital £'000	Share premium £'000	Own shares in share trusts £'000	Hedging reserve £'000	Foreign exchange reserve £'000	Retained earnings £'000	**Total equity £'000**
1 October 2014	*1,048*	*2,757*	*(549)*	*(377)*	*291*	*25,590*	*28,760*
Net profit for the year	*—*	*—*	*—*	*—*	*—*	*5,990*	*5,990*
Other comprehensive income:							
Exchange differences	*—*	*—*	*—*	*—*	*830*	*—*	*830*
Fair value movement on cash flow hedges	*—*	*—*	*—*	*(404)*	*—*	*—*	*(404)*
Actuarial loss on defined benefit pension scheme	*—*	*—*	*—*	*—*	*—*	*(638)*	*(638)*
Taxation relating to items above	*—*	*—*	*—*	*81*	*(2)*	*129*	*208*
Total comprehensive income	*—*	*—*	*—*	*(323)*	*828*	*5,481*	*5,986*
Transactions with owners:							
Dividends	*—*	*—*	*—*	*—*	*—*	*(1,978)*	*(1,978)*
Share-based payments	*—*	*—*	*—*	*—*	*—*	*201*	*201*
Movement in own shares in share trust	*—*	*—*	*128*	*—*	*—*	*—*	*128*
Gain on release of shares in share trust	*—*	*—*	*—*	*—*	*—*	*52*	*52*
Issue of share capital	*2*	*—*	*(2)*	*—*	*—*	*—*	*—*
Taxation relating to items recognised directly in equity	*—*	*—*	*—*	*—*	*—*	*36*	*36*
1 October 2015	1,050	2,757	(423)	(700)	1,119	29,382	33,185
Net profit for the year	—	—	—	—	—	6,149	**6,149**
Other comprehensive income:							
Exchange differences	—	—	—	—	2,576	—	**2,576**
Fair value movement on cash flow hedges	—	—	—	120	—	—	**120**
Actuarial loss on defined benefit pension scheme	—	—	—	—	—	(4,297)	**(4,297)**
Transfer between reserves	—	—	—	—	(20)	20	**—**
Taxation relating to items above	—	—	—	(47)	—	643	**596**
Total comprehensive income	—	—	—	73	2,556	2,515	**5,144**
Transactions with owners:							
Dividends	—	—	—	—	—	(2,095)	**(2,095)**
Share-based payments	—	—	—	—	—	597	**597**
Movement in own shares in share trusts	—	—	94	—	—	—	**94**
Gain on release of shares in share trusts	—	—	—	—	—	171	**171**
Issue of share capital	3	—	(3)	—	—	—	**—**
Taxation relating to items recognised directly in equity	—	—	—	—	—	91	**91**
30 September 2016	**1,053**	**2,757**	**(332)**	**(627)**	**3,675**	**30,661**	**37,187**

Notes 1 – 30 form part of these financial statements

Group and Parent Company Statements of Changes in Equity

for the year ended 30 September 2016

Parent Company	Share capital £'000	Share premium £'000	Own shares in share trusts £'000	Retained earnings £'000	**Total equity £'000**
1 October 2014	*1,048*	*2,757*	*(549)*	*1,736*	*4,992*
Net profit for the year	*—*	*—*	*—*	*4,066*	*4,066*
Total comprehensive income	*—*	*—*	*—*	*4,066*	*4,066*
Transactions with owners:					
Dividends	*—*	*—*	*—*	*(1,978)*	*(1,978)*
Movement in own shares in share trust	*—*	*—*	*128*	*—*	*128*
Capital contribution to subsidiary undertakings	*—*	*—*	*—*	*201*	*201*
Gain on release of shares in share trusts	*—*	*—*	*—*	*52*	*52*
Issue of share capital	*2*	*—*	*(2)*	*—*	*—*
1 October 2015	1,050	2,757	(423)	4,077	7,461
Net profit for the year	—	—	—	2,878	**2,878**
Total comprehensive income	—	—	—	2,878	**2,878**
Transactions with owners:					
Dividends	—	—	—	(2,095)	**(2,095)**
Movement in own shares in share trusts	—	—	94	—	**94**
Capital contribution to subsidiary undertakings	—	—	—	597	**597**
Gain on release of shares in share trusts	—	—	—	171	**171**
Issue of share capital	3	—	(3)	—	**—**
30 September 2016	**1,053**	**2,757**	**(332)**	**5,628**	**9,106**

Notes 1 – 30 form part of these financial statements

Group and Parent Company Balance Sheets

as at 30 September 2016

Registered Number: 1568937

		Group		Parent Company	
	Notes	**2016 £'000**	2015 £'000	**2016 £'000**	2015 £'000
ASSETS					
Non-current assets					
Goodwill	12	**2,727**	1,075	**—**	—
Other intangible assets	13	**637**	661	**—**	—
Property, plant and equipment	14	**11,361**	10,998	**—**	—
Investment in subsidiaries	15	**—**	—	**7,737**	5,485
Deferred tax assets	16	**1,436**	647	**—**	—
		16,161	13,381	**7,737**	5,485
Current assets					
Inventories	17	**29,990**	25,799	**—**	—
Trade and other receivables	18	**17,853**	17,635	**13**	708
Redeemable loan notes receivable	29	**—**	—	**1,350**	1,350
Current tax assets		**4**	134	**—**	—
Cash and bank balances	19	**6,588**	1,477	**1,399**	686
		54,435	45,045	**2,762**	2,744
Total assets		**70,596**	58,426	**10,499**	8,229
LIABILITIES					
Current liabilities					
Borrowings	20	**(487)**	(567)	**—**	—
Provisions	21	**(67)**	(239)	**—**	—
Trade and other payables	22	**(14,151)**	(10,885)	**(718)**	(93)
Current tax liabilities		**(999)**	(810)	**—**	—
Derivative financial instruments	23	**(9)**	(305)	**—**	—
Redeemable loan notes payable	29	**(675)**	(675)	**(675)**	(675)
		(16,388)	(13,481)	**(1,393)**	(768)
Net current assets/(liabilities)		**38,047**	31,564	**1,369**	1,976
Non-current liabilities					
Borrowings	20	**(7,755)**	(7,065)	**—**	—
Post-employment benefits	26	**(7,401)**	(2,959)	**—**	—
Deferred tax liabilities	16	**(1,111)**	(1,037)	**—**	—
Derivative financial instruments	23	**(754)**	(699)	**—**	—
		(17,021)	(11,760)	**—**	—
Total liabilities		**(33,409)**	(25,241)	**(1,393)**	(768)
Net assets		**37,187**	33,185	**9,106**	7,461
EQUITY					
Share capital	24	**1,053**	1,050	**1,053**	1,050
Share premium account		**2,757**	2,757	**2,757**	2,757
Own shares in share trusts		**(332)**	(423)	**(332)**	(423)
Hedging reserve		**(627)**	(700)	**—**	—
Foreign exchange reserve		**3,675**	1,119	**—**	—
Retained earnings		**30,661**	29,382	**5,628**	4,077
Total equity attributable to owners of the Parent Company		**37,187**	33,185	**9,106**	7,461

Notes 1 – 30 form part of these financial statements

The financial statements were approved by the Board of Directors and authorised for issue on 28 November 2016 and were signed on its behalf by:

TIM JONES
Chairman

RICHARD HOPE
Finance Director

Group and Parent Company Statements of Cash Flows

for the year ended 30 September 2016

	Notes	Group 2016 £'000	Group 2015 £'000	Parent Company 2016 £'000	Parent Company 2015 £'000
Cash flow from operating activities					
Profit before taxation		**8,293**	7,776	**2,871**	4,060
Adjusted for:					
Depreciation of property, plant and equipment	14	**1,347**	1,244	**—**	—
Amortisation of intangible assets	13	**142**	175	**—**	—
Loss on disposal of property, plant and equipment	5	**2**	46	**—**	—
Net finance costs	7	**703**	740	**14**	19
Share-based payments	25	**566**	198	**—**	—
(Increase)/decrease in fair value of derivatives	29	**(122)**	143	**—**	—
Increase/(decrease) in post-employment benefit obligations		**145**	(208)	**—**	—
Operating cash flow before movements in working capital		**11,076**	10,114	**2,885**	4,079
Movements in working capital:					
(Increase)/decrease in inventories		**(2,501)**	2,907	**—**	—
Decrease/(increase) in trade and other receivables		**688**	(2,282)	**695**	(77)
Increase/(decrease) in trade and other payables, and provisions		**1,541**	(2,072)	**(277)**	50
Cash generated from operations		**10,804**	8,667	**3,303**	4,052
Taxation (paid)/received		**(2,022)**	(1,469)	**6**	7
Net cash from operating activities		**8,782**	7,198	**3,309**	4,059
Cash flow from investing activities					
Investments in subsidiaries		**(752)**	—	**(752)**	—
Proceeds on disposal of property, plant and equipment		**—**	5	**—**	—
Purchase of property, plant and equipment	14	**(679)**	(924)	**—**	—
Purchase of intangible assets	13	**(109)**	(108)	**—**	—
Interest received	7	**8**	1	**5**	20
		(1,532)	(1,026)	**(747)**	20
Cash flow from financing activities					
Increase/(decrease) in bank loans		**381**	(2,145)	**—**	—
Interest paid	7	**(711)**	(741)	**(19)**	(39)
Dividends paid	10	**(2,095)**	(1,978)	**(2,095)**	(1,978)
Net sale of own shares by share trusts		**265**	180	**265**	180
		(2,160)	(4,684)	**(1,849)**	(1,837)
Net increase in cash and cash equivalents		**5,090**	1,488	**713**	2,242
Effect of foreign exchange rates		**15**	(33)	**—**	—
Movement in cash and cash equivalents in the year		**5,105**	1,455	**713**	2,242
Cash and cash equivalents at beginning of year		**1,476**	21	**686**	(1,556)
Cash and cash equivalents at end of year		**6,581**	1,476	**1,399**	686
Cash and cash equivalents comprise:					
Cash and bank balances	19	**6,588**	1,477	**1,399**	686
Bank borrowings	20	**(7)**	(1)	**—**	—
		6,581	1,476	**1,399**	686

Notes 1 – 30 form part of these financial statements

FINANCIAL STATEMENTS

Group Reconciliation of Net Cash Flow to Movement in Net Debt

for the year ended 30 September 2016

	2016 £'000	2015 £'000
Movement in cash and cash equivalents in the year	**5,105**	1,455
(Increase)/repayment in bank loans	**(381)**	2,145
Cash inflow/(outflow) from changes in net debt in the year	**4,724**	3,600
Effect of foreign exchange rates	**(223)**	(171)
Movement in net debt in the year	**4,501**	3,429
Net debt at beginning of year	**(6,155)**	(9,584)
Net debt at end of year	**(1,654)**	(6,155)

Notes 1 – 30 form part of these financial statements

Notes to the Financial Statements

for the year ended 30 September 2016

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 96.

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 ending 30 September 2016.

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 2012 – 2014
- Annual improvements 2014
- IFRS 2 Share-based payments (amendments)
- IFRS 7 Financial instruments: Additional hedge accounting disclosures (and consequential amendments)
- IFRS 9 Financial instruments: Classification, measurement, impairment, general hedge accounting and derecognition of assets and liabilities
- IFRS 10 Consolidated financial statements (amendments)
- IFRS 11 Joint arrangements (amendments)
- IFRS 12 Disclosure of interests in other entities (amendments)
- IFRS 15 Revenue from contracts with customers
- IFRS 16 Leases
- IAS 1 Presentation of financial statements (amendments)
- IAS 7 Statement of cash flows (amendments)
- IAS 12 Income taxes (amendments)
- IAS 16 Property, plant and equipment (amendments)
- IAS 19 Employee benefits (amendments)
- IAS 27 Separate financial statements (amendments)
- IAS 28 Investments in associates and joint ventures (amendments)
- IAS 34 Interim financial reporting (amendments)
- IAS 38 Intangible assets (amendments)
- IAS 39 Financial Instruments: Recognition and measurement (amendments)

The Directors anticipate that the adoption of these standards and interpretations in future periods will have no material impact on the financial statements of the Group or the Parent Company when the relevant standards and interpretations come into effect.

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.

Of the profit for the financial year, £2.9m (2015: £4.1m) has been dealt with in the accounts of the Parent Company. 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 20 to 23.

Presentation of financial statements

The primary statements within the financial information contained in this document have been presented in accordance with IAS 1, "Presentation of Financial Statements".

Investments in subsidiaries

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

Business combinations

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition

Revenue represents amounts receivable net of trade discounts, VAT and other sales-related taxes. Revenue is recognised in these financial statements when goods are physically despatched from the Group and/or Parent Company's premises or other storage depots, irrespective of the terms of trade, as the Directors believe that this is the point at which the significant risks and rewards of ownership are transferred to the customer in accordance with IAS 18, "Revenue Recognition".

Effect of changes in foreign exchange rates

Transactions in currencies other than Pounds Sterling are recorded at the rate of exchange at the date of transaction. Assets and liabilities in foreign currencies are translated into Pounds Sterling in the balance sheet at the year-end rate.

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

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

Research and development expenditure

Expenditure on research activities is recognised as an expense and charged to the income statement in the period in which it is incurred.

Expenditure arising from any specific development is recognised as an asset only if all of the following conditions are met:

- An asset is created that can be identified;
- It is probable that the asset created will generate future economic benefits; and
- The development cost of the asset can be measured reliably.

Development expenditure meeting these conditions is amortised on a straight line basis over its useful life. Where these conditions for capitalising development expenditure have not been met, the related expenditure is recognised as an expense in the period in which it is incurred.

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

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

Deferred tax

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

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

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

Deferred tax is measured at the average tax rates that are expected to apply in the periods in which timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date. Where the Group and/or Parent Company have a net deferred tax asset in one legal jurisdiction and a liability in another, and consequently have no legal right of set off, then these assets and liabilities will be shown separately on the balance sheet as required by IAS 12, "Income Taxes".

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

Notes to the Financial Statements

for the year ended 30 September 2016 (continued)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Exceptional items

The Group has elected to classify certain items as exceptional and present them separately on the face of the income statement. Exceptional items are classified as those which are separately identified by virtue of their size, nature or expected frequency, to allow a better understanding of the underlying performance in the period.

Post balance sheet events and dividends

IAS 10, "Events after the Balance Sheet Date" requires that final dividends proposed after the balance sheet date should not be recognised as a liability at that balance sheet date, as the liability does not represent a present obligation as defined by IAS 37, "Provisions, Contingent Liabilities and Contingent Assets". Consequently, final dividends are only recognised as a liability once formally approved at the Annual General Meeting and interim dividends are not recognised until paid.

Cash flow

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

Property, plant and equipment

Property, plant and equipment is stated at cost less depreciation.

Depreciation is provided on all property, plant and equipment, except freehold and long leasehold land, using the straight-line basis to write off the cost of the asset, less estimated residual value, as follows:

- Plant and machinery: 4-10 years
- Buildings: 50 years

Intangible assets

Goodwill

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

Other intangible assets

Amortisation (which is included within administrative expenses) is provided on all intangible assets, other than goodwill, using the straight-line basis to write off the cost of the asset, less estimated residual value, as follows:

- Software licenses: 4 years
- Lease premium: 85 years

Impairment of property, plant and equipment and intangible assets

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

The need for any non-current asset impairment write down is assessed by comparison of the carrying value of the asset against the higher of net realisable value and value in use.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is based on raw material costs plus attributable overheads.

Net realisable value is based on estimated selling price less further costs expected to be incurred through to disposal. Provision is made for obsolete, slow-moving and defective items.

Onerous contracts

Provisions for onerous contracts are recognised when the expected benefits from a contract are lower than the unavoidable costs of meeting the contract's obligations.

Financial instruments

Financial assets and financial liabilities are recognised on the Group and/or Parent Company's balance sheet when the Group and/or Parent Company have become a party to the contractual provisions of the instrument.

Financial assets

Financial assets held by the Group are either classified as held for trading or are accounted for as trade receivables, loans, other receivables and cash and cash equivalents at amortised cost. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Trade and other receivables

Trade and other receivables are initially recognised at fair value. They are subsequently measured at their amortised cost using the effective interest method less any provision for impairment. A provision for impairment is made where there is objective evidence, (including customers with financial difficulties or in default on payments), that the asset is impaired. A provision for impairment is established when the carrying value of the receivable exceeds the present value of the future cash flow discounted using the original effective interest rate. The carrying value of the receivable is reduced through the use of an allowance account and any impairment loss is recognised in the income statement.

Loans receivable

All loans receivable are initially recognised at fair value. After initial recognition, interest-bearing loans are measured at amortised cost less any impairment loss recognised to reflect irrecoverable amounts. An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the loan's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition. Impairment losses are reversed in subsequent periods when an increase in the loan's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to the restriction that the carrying amount of the loan at the date the impairment is reversed shall not exceed what the amortised cost would have been had the impairment not been recognised.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial liabilities and equity instruments

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the Group or Parent Company after deducting all of its liabilities.

Interest-bearing loans and borrowings

All loans and borrowings are initially recognised at the fair value of the consideration received, net of issue costs. After initial recognition, interest-bearing loans and borrowings are measured at amortised cost using the effective interest method. All borrowing costs are recognised in the income statement in the period in which they are incurred.

Trade payables

Trade payables are not interest-bearing and are stated at their nominal value.

Equity instruments

Equity instruments issued by the Parent Company are recorded at the proceeds received, net of direct issue costs.

Derivative financial instruments

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

Hedge accounting

At the inception of the hedge relationship, the Group documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an 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

Notes to the Financial Statements

for the year ended 30 September 2016 (continued)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

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

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

Critical accounting estimates, assumptions and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The Group makes estimates and assumptions concerning the future. The resulting accounting estimates and assumptions will, by definition, seldom equal the related actual results. The Group has evaluated the estimates and assumptions that have been made in relation to the carrying amounts of assets and liabilities in these financial statements.

The key accounting judgements and sources of estimation uncertainty with a significant risk of causing a material adjustment to assets and liabilities in the next 12 months include the following:

Critical accounting estimates and assumptions

Pensions – movements in equity markets, interest rates and life expectancy could materially affect the level of surpluses and deficits in the defined benefit pension scheme. The key assumptions used to value pension assets and liabilities are set out in note 26 "Post-employment benefits";

Useful economic life and residual value estimates – the Group reviews the useful economic lives and residual values attributed to assets on an on-going basis to ensure they are appropriate. Changes in economic lives or residual values could impact the carrying value and charges to the income statement in future periods;

Provisions – using information available at the balance sheet date, the Directors make judgements based on experience on the level of provision required. Further information received after the balance sheet date may impact the level of provision required;

Share-based payments – in accordance with IFRS 2 "Share-based Payments", share options and other share awards are measured at fair value at the date of grant. The fair value determined is then expensed in the income statement on a straight line basis over the vesting period, with a corresponding increase in equity. The fair value of the options is measured using the Black-Scholes option pricing model. The valuation of these share-based payments requires several judgements to be made in respect of the number of options that are expected to be exercised. Details of the assumptions made in respect of each of the share-based payment schemes are disclosed in note 25 "Share-based Payments". Changes in these assumptions could lead to changes in the income statement expense in future periods;

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

Taxation – the Group operates in a number of tax jurisdictions and estimation is required of taxable profit in order to determine the Group's current tax liability. There are transactions and calculations for which the ultimate tax determination can be uncertain. The Group periodically evaluates situations in which applicable tax regulation is subject to interpretation and establishes provisions where appropriate based on amounts expected to be paid to the tax authorities.

Critical accounting judgements

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. At 30 September 2016 the market value of the shares held by the EBT was £1,212,000 (2015: £1,189,000), and the market value of shares held by the SIP was £506,000 (2015: £142,000) of which £470,000 (2015: £122,000) relates to shares beneficially held by employees.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

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 ingredient solutions for the flavour, fragrance and FMCG markets 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		2016 £'000	2015 £'000
United Kingdom		8,794	10,878
Rest of Europe	– Germany	5,527	4,576
	– Ireland	5,871	7,903
	– Other	11,011	10,834
The Americas	– USA	33,729	27,447
	– Other	4,142	6,721
Rest of the World	– China	4,536	4,840
	– Other	14,430	12,735
		88,040	85,934

All Group revenue is in respect of the sale of goods, other than property rental income of £17,000 (2015: £17,000). No country included within "Other" contributes more than 5% of the Group's total revenue. There were no customers which represented more than 10% of Group revenue (2015: largest customer represented 12.1% of Group revenue).

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

	2016 £'000	2015 £'000
United Kingdom	7,645	6,353
United States	6,611	6,041
Rest of the World	469	340
	14,725	12,734

Notes to the Financial Statements

for the year ended 30 September 2016 (continued)

5. PROFIT FOR THE YEAR

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

Group	2016 £'000	2015 £'000
Depreciation of property, plant & equipment	**1,347**	1,244
Amortisation of intangible assets[1]	**142**	175
Loss on disposal of property, plant & equipment	**2**	46
Research and development costs	**895**	807
Operating leases		
– plant & machinery	**12**	11
– land & buildings	**100**	84
Net foreign exchange loss[2]	**(8)**	273
Rent receivable	**(17)**	(17)
Cost of inventories recognised as expense[3]	**58,357**	56,375
Write down/(write back) of inventories recognised as an expense	**(561)**	1,174
Shipping costs	**1,643**	1,781
IT & telephony costs	**601**	578
Insurance costs	**583**	531
Energy & utility costs	**498**	427

[1] Included in administrative expenses.
[2] Excludes foreign exchange gains or losses on financial instruments disclosed in note 23.
[3] Included in cost of sales.

The analysis of auditor's remuneration is as follows:

Fees payable to the Parent Company's auditors and their associates for the audit of:		
– the Parent Company and Group accounts	**36**	33
– the Group's subsidiaries pursuant to legislation	**71**	67
Total audit fees	**107**	100
Fees payable to the Parent Company's auditors and their associates for other services to the Group:		
– tax compliance services	**19**	13
– tax advisory services	**2**	5
– business advisory services	**—**	2
– financial modelling software services*	**11**	40
Total non-audit fees	**32**	60

* The financial modelling software services have been included in Other Intangible Assets.

FINANCIAL STATEMENTS

6. EMPLOYEES

Group

Number of employees

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

	2016 Number	2015 Number
Technical and production	**190**	186
Administration and sales	**126**	124
	316	310

Employment costs

The followings costs were incurred in respect of the above:

	2016 £'000	2015 £'000
Wages and salaries	**10,874**	9,955
Social security costs	**1,040**	943
Pension costs (see note 26)	**761**	721
Share-based payments (see note 25)	**566**	198
	13,241	11,817

Directors

The information on Directors' emoluments and share options set out on pages 39 to 50 form part of these financial statements.

7. NET FINANCE COSTS

Group	**2016 £'000**	2015 £'000
Finance costs		
Bank overdraft interest paid	**431**	483
Other bank finance costs	**134**	116
Loan interest paid	**20**	34
Loan note interest paid	**7**	10
Pension finance cost (see note 26)	**119**	98
	711	741
Finance revenue		
Bank interest received	**8**	1
Net finance costs	**703**	740

8. EXCEPTIONAL ITEMS

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

Group	**2016 £'000**	2015 £'000
Legal and professional fees	**302**	174
Restructuring costs	**251**	—
	553	174
Less: tax effect of exceptional items	**(38)**	(18)
	515	156

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

Notes to the Financial Statements

for the year ended 30 September 2016 (continued)

9. TAXATION

Group	2016 £'000	2015 £'000
Analysis of tax charge in income statement:		
Current tax:		
UK corporation tax on profits for the year	**967**	956
Adjustments to UK tax in respect of previous periods	**9**	(11)
Overseas corporation tax on profits for the year	**1,370**	931
Adjustments to overseas tax in respect of previous periods	**8**	33
Total current tax	**2,354**	1,909
Deferred tax:		
Origination and reversal of temporary differences	**(179)**	(59)
Effect of reduced tax rate on opening assets and liabilities	**(27)**	—
Adjustments in respect of previous periods	**(4)**	(64)
Total deferred tax (see note 16)	**(210)**	(123)
Tax on profit on ordinary activities	**2,144**	1,786
Analysis of tax charge/(credit) in other comprehensive income:		
Current tax:		
Foreign currency translation differences	**—**	2
Actuarial loss on defined benefit pension scheme	**—**	(43)
Total current tax	**—**	(41)
Deferred tax:		
Cash flow hedges	**47**	(81)
Actuarial loss on defined benefit pension scheme	**(643)**	(86)
Total deferred tax	**(596)**	(167)
Total tax credit recognised in other comprehensive income	**(596)**	(208)
Analysis of tax charge/(credit) in equity:		
Current tax:		
Share-based payments	**(16)**	(38)
Deferred tax:		
Share-based payments	**(75)**	2
Total tax credit recognised in equity	**(91)**	(36)

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 20% (2015: 20.5%). The differences are explained below:

	2016 £'000	2015 £'000
Profit before tax multiplied by standard rate of UK corporation tax at 20% (2015: 20.5%)	**1,659**	1,594
Effects of:		
Expenses not deductible in determining taxable profit and other items	**51**	(80)
Research and development tax credits	**(145)**	(125)
Difference in tax rates on overseas earnings	**566**	439
Adjustments to tax charge in respect of prior years	**13**	(42)
Total tax charge for the year	**2,144**	1,786

The main rate of UK corporation tax was reduced from 21% to 20% with effect from 1 April 2015. The Group's effective UK corporation tax rate for the year was therefore 20% (2015: 20.5%). The adjustments in respect of prior year's relate to the finalisation of previous years tax computations.

10. DIVIDENDS

Equity dividends on ordinary shares:

Parent Company and Group	Dividend per share for years ended 30 September 2016[2] Pence	2015[1] Pence	2014[1] Pence	2016 £'000	2015 £'000
Interim dividend	*1.35p*	**1.28p**	1.24p	**662**	638
Final dividend	*3.00p*	**2.76p**	2.60p	**1,433**	1,340
	4.35p	**4.04p**	3.84p	**2,095**	1,978

1 Accounted for in the subsequent year in accordance with IFRS.

2 The declared interim dividend for the year ended 30 September 2016 of 1.35 pence was approved by the Board on 13 May 2016 and was paid on 14 October 2016. Accordingly it has not been included as a deduction from equity at 30 September 2016. The proposed final dividend for the year ended 30 September 2016 of 3.00 pence will be voted on at the Annual General Meeting on 27 January 2017. Both dividends will therefore be accounted for in the financial statements for the year ending 30 September 2017.

11. EARNINGS PER SHARE

Group

Basic earnings per share

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

	2016	2015
Earnings (£'000)	**6,149**	5,990
Weighted average number of ordinary shares in issue (No: '000)	**51,895**	51,464
Basic earnings per share (pence)	**11.85p**	11.64p

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:

	2016 No ('000)	2015 No ('000)
Weighted average number of shares	**52,575**	52,450
Weighted average number of shares held in the EBT and SIP	**(680)**	(986)
Weighted average number of shares used for calculating basic EPS	**51,895**	51,464
Executive share option schemes	**645**	262
All-employee share options	**122**	152
Weighted average number of shares used for calculating diluted EPS	**52,662**	51,878
Diluted earnings per share (pence)	**11.68p**	11.55p

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:

	2016 £'000	2015 £'000
Earnings for calculating basic and diluted earnings per share	**6,149**	5,990
Adjusted for:		
Exceptional items (see note 8)	**553**	174
Taxation thereon	**(38)**	(18)
Earnings for calculating adjusted earnings per share	**6,664**	6,146
Adjusted basic earnings per share (pence)	**12.84p**	11.94p
Adjusted diluted earnings per share (pence)	**12.65p**	11.85p

Notes to the Financial Statements

for the year ended 30 September 2016 (continued)

12. GOODWILL

Group	£'000
Cost	
1 October 2014	*3,507*
1 October 2015	3,507
Deferred consideration	**1,652**
30 September 2016	**5,159**
Accumulated impairment losses	
1 October 2014	*2,432*
1 October 2015	2,432
30 September 2016	**2,432**
Carrying amount	
30 September 2016	**2,727**
30 September 2015	1,075

All goodwill relates to the acquisition of the Earthoil Group. Deferred consideration of £1.7m was payable in the year following the full and final settlement of the earnout dispute. In accordance with the transitional rules under IFRS 3, "Business Combinations", the deferred consideration has been accounted for as an increase to goodwill. The goodwill arising on the acquisition of Earthoil is attributable to the anticipated profitability of Earthoil's products in new and rapidly growing existing markets.

The Group tests goodwill annually for impairment, or more frequently if there are indications that goodwill might be impaired. The recoverable amount of goodwill arising on the acquisition of Earthoil is determined from value in use calculations. The key assumptions for the value in use calculations are those regarding the discount rates, revenue, overhead growth rates and perpetuity growth rate. Management estimates discount rates using pre-tax rates that reflect market assessments of the time value of money and the risks specific to Earthoil. As at the year ended 30 September 2016, the impairment review has concluded that the value in use of Earthoil now significantly exceeds its carrying value. In performing this impairment review, the Group has prepared cash flow forecasts derived from the most recent financial budgets approved by the Board for the five years ending 30 September 2021. Thereafter, a growth rate for pre-tax profit of 2% (2015: 2%) per annum is assumed into perpetuity. A rate of 9.6% (2015: 12.5%) has been used to discount the forecast cash flows. The key assumptions are based on past experience adjusted for expected changes in future conditions.

Based upon this impairment review the recoverable amount of Earthoil exceeds its carrying amount by £7.8m (2015: £9.1m). The recoverable amount is most sensitive to changes in the discount rate and sales growth. A 1% change in the discount rate or sales growth would change the recoverable amount by £1.2m.

13. OTHER INTANGIBLE ASSETS

Group	Lease premium £'000	Software licenses £'000	**Total £'000**
Cost			
1 October 2014	*343*	*946*	*1,289*
Exchange Adjustment	—	*5*	*5*
Additions	—	*108*	*108*
Disposals	—	*(171)*	*(171)*
1 October 2015	343	888	1,231
Exchange adjustment	—	13	**13**
Additions	—	109	**109**
Disposals	—	(246)	**(246)**
30 September 2016	**343**	**764**	**1,107**

13. OTHER INTANGIBLE ASSETS (continued)

Group	Lease premium £'000	Software licenses £'000	**Total £'000**
Amortisation			
1 October 2014	*17*	*546*	*563*
Exchange adjustment	*—*	*3*	*3*
Charge for year	*4*	*171*	*175*
Disposals	*—*	*(171)*	*(171)*
1 October 2015	21	549	570
Exchange adjustment	—	4	**4**
Charge for year	4	138	**142**
Disposals	—	(246)	**(246)**
30 September 2016	**25**	**445**	**470**
Net book value			
30 September 2016	**318**	**319**	**637**
30 September 2015	322	339	661

Intangible assets with a net book value of £54,000 (2015: £52,000) have been pledged as security in relation to the Industrial Development Loan detailed in note 20.

14. PROPERTY, PLANT AND EQUIPMENT

Group	Land & buildings £'000	Plant & machinery £'000	**Total £'000**
Cost			
1 October 2014	*6,256*	*10,626*	*16,882*
Exchange Adjustment	*230*	*328*	*558*
Additions	*43*	*881*	*924*
Disposals	*(162)*	*(1,071)*	*(1,233)*
1 October 2015	6,367	10,764	17,131
Exchange adjustment	577	973	**1,550**
Additions	—	679	**679**
Disposals	—	(576)	**(576)**
30 September 2016	**6,944**	**11,840**	**18,784**
Depreciation			
1 October 2014	*1,090*	*4,798*	*5,888*
Exchange adjustment	*53*	*129*	*182*
Charge for year	*135*	*1,109*	*1,244*
Impairment adjustment	*—*	*27*	*27*
Disposals	*(143)*	*(1,065)*	*(1,208)*
1 October 2015	1,135	4,998	6,133
Exchange adjustment	132	385	**517**
Charge for year	140	1,207	**1,347**
Disposals	—	(574)	**(574)**
30 September 2016	**1,407**	**6,016**	**7,423**
Net book value			
30 September 2016	**5,537**	**5,824**	**11,361**
30 September 2015	5,232	5,766	10,998

Analysis of land & buildings	**2016 £'000**	2015 £'000
Net book value		
Freehold	**4,831**	4,510
Long Leasehold	**706**	722
	5,537	5,232

Included in plant and machinery are assets in the course of construction totalling £275,000 (2015: £305,000) which are not depreciated.

Notes to the Financial Statements
for the year ended 30 September 2016 (continued)

14. PROPERTY, PLANT AND EQUIPMENT (continued)

Property, plant and equipment with a net book value of £6.2m (2015: £5.7m) has been pledged as security in relation to the Industrial Development Loan and Equipment Financing Loans detailed in note 20.

Capital commitments	2016 £'000	2015 £'000
Contracted but not provided for	362	163

15. INVESTMENTS IN SUBSIDIARIES

Parent Company	Total £'000
Cost	
1 October 2014	*5,285*
Capital contribution to subsidiaries	*201*
Rounding adjustment	*(1)*
1 October 2015	5,485
Investment in subsidiaries	1,655
Capital contribution to subsidiaries	597
30 September 2016	**7,737**

Parent Company	2016 £'000	2015 £'000
Subsidiary:		
R C Treatt & Co Limited – at cost 50,000 ordinary shares of £1 each, fully paid	2,855	2,467
Treatt USA Inc – at cost 2,975,000 common stock of US$1 each, fully paid	2,155	1,943
Earthoil Plantations Limited 4,051,000 ordinary shares of 50p each, fully paid	2,245	923
Earthoil Kenya Pty Limited 2,500 "A" ordinary shares of KES20 each, fully paid 2,500 "B" ordinary shares of KES20 each, fully paid	482	152
	7,737	5,485

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	100%	Supply of flavour and fragrance ingredients
Treatt USA Inc	USA	100%	Supply of flavour and fragrance ingredients
Earthoil Plantations Limited	England	100%	Supply of natural cosmetic ingredients
Earthoil Kenya Pty Limited	Kenya	100%	Intermediate holding company
Treatt SIP Trustees Limited	England	100%	Employee share trust
Wholly owned by Earthoil Kenya Pty Limited:			
Earthoil Africa EPZ Limited	Kenya	100%	Supply of organic & fair trade vegetable oils
Earthoil Extracts Limited	Kenya	100%	Supply of organic & fair trade essential oils

FINANCIAL STATEMENTS

16. DEFERRED TAXATION

Group	2016 £'000	2015 £'000
UK deferred tax asset	**1,436**	647
Overseas deferred tax liability	**(1,111)**	(1,037)
Net deferred tax asset/(liability)	**325**	(390)

A reconciliation of the net deferred liability is shown below:

	UK Deferred Tax				Overseas Deferred Tax		Total
Group	Post-employment benefits £'000	Fixed assets £'000	Cash flow hedge £'000	Share-based payments £'000	Fixed assets £'000	Other temporary differences £'000	£'000
1 October 2014	*505*	*(227)*	*85*	*33*	*(1,174)*	*167*	*(611)*
Exchange differences	—	—	—	—	*(80)*	*13*	*(67)*
(Charge)/credit to income statement	—	*18*	*36*	*32*	*56*	*(19)*	*123*
Credit/(charge) to OCI	*86*	—	*81*	—	—	—	*167*
Credit direct to equity	—	—	—	*(2)*	—	—	*(2)*
1 October 2015	591	(209)	202	63	(1,198)	161	(390)
Exchange differences	—	—	—	—	(204)	38	**(166)**
(Charge)/credit to income statement							
For the year	23	58	(24)	57	(31)	98	**181**
For change in tax rate	—	29	—	—	—	—	**29**
Credit/(charge) to OCI							
For the year	732	—	(47)	—	—	—	**685**
For change in tax rate	(89)	—	—	—	—	—	**(89)**
Credit/(charge) to equity							
For the year	—	—	—	60	—	25	**85**
For change in tax rate	—	—	—	(10)	—	—	**(10)**
30 September 2016	**1,257**	**(122)**	**131**	**170**	**(1,433)**	**322**	**325**

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% (2015: 20%) as legislation has been substantively enacted which reduces the main rate of UK corporation tax from 20% in the 2015/16 tax year, to 19% for the 2017/18 tax year and to 17% for the 2020/21 tax year. The deferred tax rate applicable to the Group's US subsidiary was 36% (2015: 36%).

17. INVENTORIES

Group	2016 £'000	2015 £'000
Raw materials	**12,395**	10,830
Work in progress and intermediate products	**13,476**	12,504
Finished goods	**4,119**	2,465
	29,990	25,799

Inventory with a carrying value of £11.2m (2015: £10.2m) has been pledged as security in relation to the Industrial Development Loan detailed in note 20.

Notes to the Financial Statements

for the year ended 30 September 2016 (continued)

18. TRADE AND OTHER RECEIVABLES

	Group		Parent Company	
	2016	2015	**2016**	2015
Current	**£'000**	£'000	**£'000**	£'000
Trade receivables	**16,250**	15,634	**—**	—
Amounts owed by subsidiaries	**—**	—	**13**	116
Other receivables	**852**	1,090	**—**	592
Prepayments	**751**	911	**—**	—
	17,853	17,635	**13**	708

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	**2016**	2015
Average debtor days	**66**	61

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:

	2016	2015
Group	**£'000**	£'000
Impairment provision		
At start of year	**307**	309
Released in year	**(147)**	(108)
Provided in year	**136**	100
Foreign exchange	**12**	6
Balance at end of year	**308**	307

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 29% (2015: 30%) of the Group's turnover. These customers have favourable credit ratings and consequently reduce the credit risk of the Group's overall trade receivables. The Directors consider that the carrying amount of trade and other receivables approximates to their fair value. The Group holds no collateral against these receivables at the balance sheet date.

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

	2016	2015
Group	**£'000**	£'000
Number of days past the due date:		
1–30	**1,809**	2,213
31–60	**726**	507
Over 60	**1,286**	501

18. TRADE AND OTHER RECEIVABLES (continued)

The ageing profile of impaired trade receivables is as follows:

Group	2016 £'000	2015 £'000
Number of days past the due date:		
Current	**15**	24
1–30	**2**	—
31–60	**8**	—
Over 60	**283**	283

The currency risk in respect of trade receivables is managed in conjunction with the other currency risks faced by the Group as part of its overall hedging strategy. For further details see note 29 and the Financial Review on pages 16 to 19. The currency exposure within trade receivables, analysed by currency, was as follows:

Group	2016 £'000	2015 £'000
GB Pound	**3,245**	3,267
US Dollar	**10,941**	10,924
Euro	**1,899**	1,383

Trade receivables with a carrying value of £6.1m (2015: £3.7m) have been pledged as security in relation to the Industrial Development Loan detailed in note 20.

19. CASH AND BANK BALANCES

Group

Cash and bank balances of £6,588,000 (2015: £1,477,000) comprise cash held by the Group and short term deposits with an original maturity of one month or less. The carrying amount of these assets approximates to their fair value.

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

20. BORROWINGS

	Group		Parent Company	
Current	**2016 £'000**	2015 £'000	**2016 £'000**	2015 £'000
US term loans	**480**	566	**—**	—
Bank borrowings	**7**	1	**—**	—
	487	567	**—**	—

	Group	
Non-current	**2016 £'000**	2015 £'000
US term loans	**827**	1,124
UK revolving credit facilities	**6,928**	5,941
	7,755	7,065

Notes to the Financial Statements

for the year ended 30 September 2016 (continued)

20. BORROWINGS (continued)

US loans and borrowings

US term loans comprise the following:

Group	2016 £'000	2015 £'000
Industrial development loan	**1,001**	1,030
Equipment financing loans	**306**	660
	1,307	1,690

The industrial development loan is repayable by fixed quarterly instalments over 20 years ending on 1 July 2021. The rate of interest payable has been fixed at 3.66% for ten years ending on 1 July 2021 by way of an interest rate swap which covers the full term of the loan. The fair value of this interest rate swap (based on the mark-to-market valuation provided by Bank of America) at the year-end was £80,000 (2015: £91,000) based on year end exchange rates. The fair value of this swap is not included on the balance sheet or through the income statement as the amount involved is not material. Similarly, the Directors do not apply hedge accounting in respect of US borrowings due to the lack of materiality of the items involved.

The equipment financing loans of £195,000 (2015: £491,000) and £111,000 (2015: £169,000) are repayable by fixed monthly instalments over five years ending on 30 March and 31 December 2017, with fixed interest rates of 4.36% and 2.89% respectively.

The US Dollar overdraft facility ("line of credit") of $4 million is a four year facility expiring in 2017. The US term loans and line of credit, both held by Treatt USA Inc, are secured by a fixed and floating charge over Treatt USA's current and non-current assets.

Other borrowings

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

Borrowings are repayable as follows:

Group	2016 £'000	2015 £'000
– in one year or less	**487**	567
– in more than one year but not more than two years	**219**	412
– in more than two years but not more than five years	**7,536**	6,465
– in more than five years	**—**	188
	8,242	7,632

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

Borrowing facilities

At 30 September 2016 the Group had total borrowing facilities of £22.4m (2015: £20.7m) of which £3.1m (2015: £8.5m) expire in one year or less. At 30 September 2016 the Group had access to £20.8m (2015: £14.5m) of financing facilities including its own cash balances at that date.

21. PROVISIONS

Group	2016 £'000	2015 £'000
Onerous contract provision:		
At start of year	**239**	920
Utilised in year	**(243)**	(887)
Additional provision in year	**67**	195
Foreign exchange	**4**	11
Balance at end of year	**67**	239

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.

22. TRADE AND OTHER PAYABLES

Current	Group 2016 £'000	Group 2015 £'000	Parent Company 2016 £'000	Parent Company 2015 £'000
Trade payables	**9,996**	7,432	**—**	—
Amounts owed to subsidiaries	**—**	—	**711**	61
Other taxes and social security costs	**408**	508	**1**	8
Accruals and other creditors	**3,747**	2,945	**6**	24
	14,151	10,885	**718**	93

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.

Accruals and other creditors include £0.9m in relation to the final agreed settlement of the earnout dispute.

The currency risk in respect of trade payables is managed in conjunction with the other currency risks faced by the Group as part of its overall hedging strategy. For further details see note 29 and the Financial Review on pages 16 to 19. The currency exposure within trade payables, analysed by currency, was as follows:

Group	2016 £'000	2015 £'000
GB Pound	**1,407**	1,529
US Dollar	**4,618**	4,446
Euro	**1,181**	533

23. DERIVATIVE FINANCIAL INSTRUMENTS

Group	2016 £'000	2015 £'000
Derivative financial liabilities:		
Current:		
Foreign exchange contracts	**9**	305
Non-current:		
Interest rate swaps	**754**	699
	763	1,004

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

Group	2016 £'000	2015 £'000
Income statement:		
Foreign exchange contracts	**(2,196)**	243
Other comprehensive income:		
Interest rate swaps	**(54)**	(188)
Foreign exchange contracts	**174**	(216)
	120	(404)

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

Notes to the Financial Statements

for the year ended 30 September 2016 (continued)

24. SHARE CAPITAL

Parent Company and Group Called up, allotted and fully paid	2016 £'000	2016 Number	2015 £'000	2015 Number
At start of year	1,050	52,495,170	1,048	52,405,170
Issued in year	3	160,000	2	90,000
At end of year	1,053	52,655,170	1,050	52,495,170

During the year the Parent Company issued 160,000 (2015: 90,000) 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.

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

25. SHARE-BASED PAYMENTS

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

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

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

The share-based payments charge was as follows:

Group	2016 £'000	2015 £'000
Share option schemes – see (a) below	514	178
Share incentive plans – see (b) below	83	20
	597	198
Effect of movement in foreign exchange rates	(31)	—
	566	198

25. SHARE–BASED PAYMENTS (continued)

(a) Share option schemes

Under the schemes listed below, options have been granted to subscribe for the following number of existing ordinary shares of 2p each in the capital of the Parent Company. These share options are expected to be settled via the transfer of shares out of the Treatt Employee Benefit Trust.

The equity–settled options which existed during the year were as follows:

	Number of shares outstanding	Number exercised in year	Exercise price per share	Date option exercisable
UK SAYE[1] Scheme 2013	—	118,115	97.8p	Sep 2016 – Feb 2017
UK SAYE Scheme 2014	191,680	—	138.0p	Sep 2017 – Feb 2018
UK SAYE Scheme 2015	190,740	—	132.0p	Sep 2018 – Feb 2019
UK SAYE Scheme 2016	250,874	—	138.0p	Sep 2019 – Feb 2020
US ESPP[2] Scheme 2015	—	29,833	137.0p	July 2016
US ESPP Scheme 2016	31,077	—	150.0p	July 2017
UK LTIP[3] Scheme 2014	100,282	—	Nil	June 2017 – June 2024
US LTIP[3] Scheme 2014	75,061	—	Nil	June 2017 – March 2018
UK LTIP Scheme 2015	130,863	—	Nil	June 2018 – June 2025
US LTIP Scheme 2015	113,993	—	Nil	June 2018 – March 2019
UK LTIP Scheme 2016	109,033	—	Nil	Dec 2019 – Dec 2026
US LTIP Scheme 2016	124,680	—	Nil	June 2019 – June 2026
UK Executive[4] Options 2012	—	12,820	78.0p	Dec 2015 – Dec 2022
US Executive Options 2012	97,740	—	79.0p	Dec 2017 – Dec 2022
UK Executive Options 2013	6,790	—	147.2p	Dec 2016 – Dec 2023
US Executive Options 2013	51,965	—	147.2p	Dec 2018 – Dec 2023
UK Executive Options 2014	128,400	—	Nil	Dec 2017 – Dec 2024
US Executive Options 2014	164,816	—	Nil	Dec 2017 – March 2018
UK Executive Options 2015	110,678	—	Nil	Dec 2018 – Dec 2025
US Executive Options 2015	175,708	—	Nil	Dec 2018 – March 2019

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

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

3 Share options are awarded to certain key employees in the UK and US under a Long Term Incentive Plan. All awards are nil-cost options which vest, subject to achievement of the relevant performance conditions, after three years and can be exercised over the following seven years in the UK, or upon vesting in the US. Save as permitted in the LTIP rules, awards lapse on an employee leaving the Group.

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

Notes to the Financial Statements

for the year ended 30 September 2016 (continued)

25. SHARE-BASED PAYMENTS (continued)

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

All-employee share schemes:	SAYE 2013	SAYE 2014	SAYE 2015	SAYE 2016	US ESPP 2015	US ESPP 2016
Share price at date of grant	123.5p	172.5p	165.0p	172.5p	165.0p	172.5p
Contractual life	3.5 years	3.5 years	3.5 years	3.5 years	1 year	1 year
Expected life	3.5 years	3.5 years	3.5 years	3 years	1 year	1 year
Expected volatility	23.6%	23.4%	23.3%	20.7%	23.1%	19.4%
Risk-free interest rate	1.30%	2.02%	1.52%	0.36%	1.52%	0.36%
Dividend yield	2.6%	2.2%	2.4%	2.4%	2.4%	2.4%
Expected cancellations	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%
Expected forfeitures	7.9%*	5.0%	5.0%	5.0%	22.1%*	5%
Fair value per option at date of grant	26.4p	39.0p	35.6 p	31.7p	27.5p	21.6p

Key employee share schemes:	UK LTIP 2014	US LTIP 2014	UK LTIP 2015	US LTIP 2015	UK LTIP 2016	US LTIP 2016
Share price at date of grant	174.0p	174.0p	158.0p	158.0p	170.0p	170.0p
Contractual life	10 years	3.2 years	10 years	3.2 years	10 years	3.2 years
Expected life	10 years	3 years	10 years	3 years	5 years	3.2 years
Expected volatility	23.4%	23.3%	23.3%	23.3%	20.7%	20.7%
Risk-free interest rate	2.02%	2.02%	1.44%	1.44%	0.86%	0.86%
Dividend yield	2.2%	2.2%	2.5%	2.5%	2.4%	2.4%
Expected cancellations	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Expected forfeitures	0.0%	0.0%	0.0%	0.0%	56.0%	56.0%
Fair value per option at date of grant	139.5p	162.1p	123.6p	146.0p	150.7p	157.3p

Executive share schemes:	UK Exec 2012	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	78.0p	147.2p	147.2p	139.7p	139.7p	164.5p	164.5p
Contractual life	10 years	10 years	10 years	10 years	10 years	10 years	10 years	10 years
Expected life	10 years	10 years	10 years	10 years	10 years	10 years	5 years	5 years
Expected volatility	21.1%	21.7%	23.6%	23.3%	23.4%	23.4%	23.3%	23.3%
Risk-free interest rate	0.84%	0.84%	1.70%	1.70%	1.26%	1.26%	1.25%	1.25%
Dividend yield	4.0%	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%	0.0%
Expected forfeitures	0.0%*	0.0%	0.0%	3.0%	0.0%	0.0%	56.0%	56.0%
Fair value per option at date of grant	8.25p	8.45p	30.0p	29.6p	106.1p	106.1p	145.5p	145.5p

* 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 is made.

25. SHARE-BASED PAYMENTS (continued)

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

	2016 No of options	2016 Weighted average exercise price	2015 No of options	2015 Weighted average exercise price
Outstanding at start of year	**1,441,505**	**£0.61**	897,910	£0.81
Granted during the year	**805,756**	**£0.47**	782,662	£0.42
Forfeited during the year	**(22,837)**	**£1.33**	(8,809)	£1.02
Exercised during the year	**(158,973)**	**£1.04**	(219,802)	£0.65
Expired during the year	**—**	**—**	(9,425)	£1.28
Cancelled during the year	**(11,151)**	**£1.36**	(1,031)	£1.47
Outstanding at end of year	**2,054,300**	**£0.45**	1,441,505	£0.61
Exercisable at end of year	**—**	**—**	—	—

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 6.5 years (2015: 6.4 years). The weighted average actual market share price on date of exercise for share options exercised during the year was 179.8 pence (2015: 158.6 pence) and the weighted average fair value of options granted during the year was 107.3 pence (2015: 92.4 pence).

(b) Share incentive plans

All UK-based employees are eligible to participate in an HMRC-approved SIP once they have been with the Group for a qualifying period of up to twelve months. US employees participate in a similar scheme through the use of nil cost Restricted Stock Units ("RSUs"). During the year UK employees were awarded £525 (2015: £500) of "Free Shares", and US employees $825 (2015: $800) of RSUs, in Treatt plc. There are no vesting conditions attached to the Free Shares or RSUs, other than being continuously employed by the Group for three years from the date of grant. UK employees can also buy shares in Treatt plc out of pre-tax income, subject to an annual HMRC limit, currently £1,800. These shares are called "Partnership Shares" and are held in trust on behalf of the employee. The employees must take their shares out of the plan on leaving the Group. For every Partnership Share acquired during the year, one "Matching Share" was awarded under the rules of the SIP. Matching Shares are subject to the same forfeiture rules as Free Shares.

Details of the movements in the SIP were as follows:

	No of free and matching shares 2016	2015	No of nil cost RSUs 2016	2015
Outstanding at start of year	**53,303**	—	**21,228**	—
Granted during the year	**102,556**	55,421	**21,248**	23,058
Forfeited during the year	**(3,614)**	(1,059)	**(4,188)**	(1,830)
Released during the year	**(4,697)**	(1,059)	**-**	—
Outstanding at end of year	**147,548**	53,303	**38,288**	21,228
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.

26. POST-EMPLOYMENT BENEFITS

Group

The Group operates a wholly-funded defined benefit pension scheme for certain UK employees. The scheme's assets are held separately from the assets of the Group and are administered by trustees and managed professionally. From 1 October 2001 this scheme was closed to new entrants and from 1 January 2013 was not subject to any further accruals. Instead members of the final salary pension scheme became eligible for membership of a defined contribution pension plan with effect from 1 January 2013.

Defined contribution schemes are operated on behalf of eligible employees, the assets of which are held separately from those of the Group in independently administered funds.

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

Current	**2016**	2015
Defined contribution schemes	**737**	697
Other pension costs	**24**	24
	761	721

Notes to the Financial Statements

for the year ended 30 September 2016 (continued)

26. POST-EMPLOYMENT BENEFITS (continued)

Defined benefit pension scheme

The Group accounts for pensions in accordance with IAS 19, "Employee Benefits", details of which are as follows:

The valuation used for IAS 19 disclosures in respect of the defined benefit pension scheme ("the scheme") has been based on the most recent actuarial valuation at 1 January 2015 carried out by Barnett Waddingham and updated by Mrs L Lawson, a Fellow of the Institute and Faculty of Actuaries, to take account of the requirements of IAS 19 in order to assess the liabilities of the scheme at 30 September 2016. 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 the 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:

	2016 £'000	2015 £'000
Discount rate	**2.60%**	4.00%
Rate of inflation (RPI)	**3.25%**	3.10%
Rate of inflation (CPI)	**2.25%**	2.10%
Rate of increase in pensions in payment – CPI max 5%	**2.25%**	2.10%
Rate of increase in pensions in payment – CPI max 3%	**2.10%**	2.00%
Rate of increase in pensions in payment – CPI max 2.5%	**1.95%**	1.85%
Revaluation in deferment	**2.25%**	2.10%
Mortality table	**100% of S2PxA table with CMI_2015 projections with a long term average rate of improvement of 1.25% pa**	100% of S2PxA table with CMI_2014 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%**	90%
Rate of increase in salaries	**N/A**	N/A
Life expectancy for male aged 65 in 20 years' time	**23.9**	24.1
Life expectancy for female aged 65 in 20 years' time	**26.1**	26.3
Life expectancy for male aged 65 now	**22.2**	22.4
Life expectancy for female aged 65 now	**24.2**	24.4

26. POST-EMPLOYMENT BENEFITS (continued)

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 2015. The valuation revealed that there was a funding surplus in the scheme as at that date of £314,000, being a funding level of 102%. It was agreed with the trustees that, consequently, the Company could cease making contributions to the scheme for the foreseeable future. It was further agreed that if the annual actuarial funding update revealed that the scheme funding level had fallen to below 95%, then contributions would be resumed. The actuarial funding update as at 30 September 2016 revealed an actuarial deficit of £1,676,000, being a funding level of 92%. The Company has therefore agreed to make on-going contributions to its defined benefit pension scheme in 2017 of £300,000 (2016: £Nil). The weighted average duration of the defined benefit obligation is approximately 21 years.

	2016 £'000	2015 £'000
Scheme assets:		
Equities	**10,025**	8,908
Target return funds	**5,499**	3,658
Bonds	**4,189**	5,652
Other	**138**	74
Fair value of scheme assets	**19,851**	18,292
Present value of funded obligations (scheme liabilities)	**(27,252)**	(21,251)
Deficit in the scheme recognised in the balance sheet	**(7,401)**	(2,959)
Related deferred tax	**1,258**	592
Net pension liability	**(6,143)**	(2,367)
Changes in scheme liabilities		
Balance at start of year	**(21,251)**	(20,706)
Interest cost	**(835)**	(839)
Benefits paid	**770**	493
Remeasurement losses:		
Experience loss on liabilities	**—**	(113)
Actuarial loss arising from changes to demographic assumptions	**1,005**	(85)
Actuarial loss arising from changes in financial assumptions	**(6,941)**	(1)
Balance at end of year	**(27,252)**	(21,251)
Changes in scheme assets		
Balance at start of period	**18,292**	18,177
Interest on scheme assets	**716**	741
Employer contributions	**(26)**	306
Benefits paid	**(770)**	(493)
Remeasurement gains:		
Return on plan assets (excluding amounts included in interest expense)	**1,639**	(439)
Balance at end of year	**19,851**	18,292

Notes to the Financial Statements
for the year ended 30 September 2016 (continued)

26. POST-EMPLOYMENT BENEFITS (continued)

	2016 £'000	2015 £'000
Amount charged to finance costs		
Interest on scheme assets	**716**	741
Interest on scheme liabilities	**(835)**	(839)
Net finance expense	**(119)**	(98)
Net expense recognised in income statement	**(119)**	(98)
Amount recognised in statement of comprehensive income		
Gain/(loss) on scheme assets in excess of interest	**1,639**	(439)
Experience losses on liabilities	**—**	(113)
Gain/(loss) from changes to demographic assumptions	**1,005**	(85)
Loss from changes to financial assumptions	**(6,941)**	(1)
Remeasurement loss recognised in statement of comprehensive income	**(4,297)**	(638)
Actual return on scheme assets	**2,355**	302
Cumulative remeasurement loss recognised in statement of comprehensive income	**(8,448)**	(4,151)

Approximate effect of change of assumptions on liability values at 30 September 2016:

	Increase liability by: £'000
Reduce discount rate by 0.25% pa	**1,385**
Increase inflation and all related assumptions by 0.1% pa	**380**
Increase life expectancy by one year	**1,150**

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

27. COMMITMENTS UNDER OPERATING LEASES

The Group as lessee
As at 30 September 2016, the Group had total commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	2016 £'000	2015 £'000
Within one year	**61**	53
In one to two years	**25**	35
In two to five years	**27**	44
	113	132

The Group as lessor
As at 30 September 2016, the Group had contracted with tenants for the following future minimum lease payments which fall due as follows:

	2016 £'000	2015 £'000
Within one year	**8**	8

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

28. CONTINGENT LIABILITIES

Parent Company

The Parent Company has guaranteed the Industrial Development Loan and "Line of Credit" for Treatt USA Inc. At the balance sheet date the liability covered by this guarantee amounted to US$1,300,000 (£1,001,000) (2015: US$1,560,000 (£1,030,000)).

The Parent Company has also guaranteed certain bank borrowings of its UK subsidiaries R C Treatt & Co Limited and Earthoil Plantations Limited. At the year-end the liabilities covered by this guarantee amounted to £4,006,000 (2015: £5,430,000).

29. FINANCIAL INSTRUMENTS

Parent Company and Group

Capital risk management

The Group and Parent Company manage their capital to ensure that entities in the Group continue as going concerns whilst maximising returns to stakeholders through the optimisation of the debt and equity balance. The capital structure of the Group consists of net debt and equity shareholders' funds. The Group is not subject to any externally imposed capital requirements. Board policy is to operate with a mix of short and medium term borrowings. The Group has a mix of facilities, including a £2m three year revolving credit facility with Lloyds Banking Group and a $9m four year revolving credit facility with HSBC in the UK, together with a $4m four year line of credit facility with Bank of America in the US. None of these facilities expire in the same financial years and all bank facilities are operated independently and are therefore not syndicated. The Group's net debt position is monitored daily and reviewed by management on a weekly basis. Further details of the Group's capital management are given in the Chairman's Statement, CEO's Report and Financial Review on pages 10 to 19.

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	
	2016 £'000	2015 £'000	**2016 £'000**	2015 £'000
Financial assets				
Redeemable loan notes receivable from subsidiaries	**—**	—	**1,350**	1,350
Trade receivables	**16,250**	15,634	**—**	—
Cash and cash equivalents	**6,588**	1,477	**1,399**	686
	22,838	17,111	**2,749**	2,036

Notes to the Financial Statements

for the year ended 30 September 2016 (continued)

29. FINANCIAL INSTRUMENTS (continued)

Capital risk management (continued)

	Group		Parent Company	
	2016 £'000	2015 £'000	**2016 £'000**	2015 £'000
Financial liabilities				
Redeemable loan notes payable	**675**	675	**675**	675
Trade payables	**9,996**	7,432	**—**	—
Bank borrowings	**7**	1	**—**	—
UK revolving credit facilities	**6,928**	5,941	**—**	—
US term loans	**1,307**	1,690	**—**	—
Derivative financial instruments – forward currency contracts (level 2)	**9**	305	**—**	—
Derivative financial instruments – interest rate swap (level 2)	**754**	699	**—**	—
	19,676	16,743	**675**	675

Fair values of financial assets and liabilities

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

Financial risk management objectives

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

Credit risk management

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

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

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

As disclosed in note 30, the loan notes are receivable by the Parent Company from two of its wholly-owned subsidiaries, comprising the Earthoil Group. The loan notes were redeemed in full after the balance sheet date.

Further details of the Group's credit risk management are given in notes 18 and 19.

29. FINANCIAL INSTRUMENTS (continued)

Credit risk management (continued)

Liquidity risk management

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

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

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

Interest rate risk management

The Group is exposed to interest rate risk on short to medium term borrowings primarily with three major institutions being HSBC, Lloyds Banking Group and Bank of America. The risk is managed by maintaining borrowings with several institutions across a number of currencies, principally US Dollar and Sterling. Long term financing is primarily used to finance long term capital investment.

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

Derivative financial instruments **Non-current liabilities**	**2016** **£'000**	2015 £'000
Interest rate swaps	**754**	699

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

The loss on interest rate swaps was as follows:

Group	**2016** **£'000**	2015 £'000
Other comprehensive income	**(54)**	(188)

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

Notes to the Financial Statements

for the year ended 30 September 2016 (continued)

29. FINANCIAL INSTRUMENTS (continued)

Interest rate risk management (continued)

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

	Floating rate financial liabilities		Fixed rate financial liabilities		Total	
Group	**2016 £'000**	2015 £'000	**2016 £'000**	2015 £'000	**2016 £'000**	2015 £'000
Bank borrowings:						
US Dollars	**(5,060)**	455	**8,235**	7,631	**3,175**	8,086
Sterling*	**(762)**	(1,709)	**—**	—	**(762)**	(1,709)
Other*	**(759)**	(222)	**—**	—	**(759)**	(222)
Total Net Debt	**(6,581)**	(1,476)	**8,235**	7,631	**1,654**	6,155
Loan notes payable:						
Sterling	**675**	675	**—**	—	**675**	675
	(5,906)	(801)	**8,235**	7,631	**2,329**	6,830

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

The Parent Company bank balances were all held in Sterling.

Interest on floating rate bank deposits is based on UK base rates or currency LIBOR as applicable. Interest on bank overdrafts is charged at 1.25%-2.25% above bank base or currency LIBOR rates. The terms of the loan notes receivable are shown within this note.

Fixed rate financial liabilities comprise the Industrial Development Loan of US$1,300,000 (2015: US$1,560,000), equipment financing term loans of $398,000 (2015: $1,000,000) and $9,000,000 revolving credit facility (see note 20).

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

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

Following the settlement of the Earthoil earnout legal dispute, the loan notes were settled after the balance sheet date. Interest is payable at 1% above UK base rate.

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 2016 would have decreased or increased as follows:

	Group		Parent Company	
	2016 £'000	2015 £'000	**2016 £'000**	2015 £'000
Impact on profit before tax of 1% interest rate movement	**89**	83	**(7)**	(7)

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

Foreign currency risk management

Foreign currency risk management occurs at a transactional level on revenues and purchases in foreign currencies and at a translational level in relation to the translation of overseas operations. The Group's main foreign exchange risk is the US Dollar. Board policy is for UK businesses to mitigate US Dollar transactional exposures by holding borrowings in US Dollars and Euros as well as by entering into foreign currency forward contracts and options. Further details of the Group's foreign currency risk management can be found in the Chairman's Statement, CEO's Report and Financial Review on pages 10 to 19.

FINANCIAL STATEMENTS

29. FINANCIAL INSTRUMENTS (continued)

Foreign currency risk management (continued)

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

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

As at 30 September 2015	Average Contract Rate	Nominal currency '000	Contract GBP £'000	Fair value gain £'000
US Dollars:				
Put option to sell US Dollars in 3 to 6 months	1.585	$13,500	8,517	(262)
Call option to sell US Dollars in 3 to 6 months	1.585	$13,500	8,517	37
Euros:				
Forward contract to sell Euros in 3 to 6 months	1.403	€3,000	2,139	(80)
				(305)

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	**2016 £'000**	2015 £'000
Income statement	**(2,196)**	243
Other comprehensive income	**175**	(216)
	(2,021)	27

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:	**2016 £'000**	2015 £'000
US Dollar	**5,495**	4,762
Other	**1,644**	1,161
	7,139	5,923

Notes to the Financial Statements

for the year ended 30 September 2016 (continued)

29. FINANCIAL INSTRUMENTS (continued)

Foreign currency risk management (continued)

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

Group	2016 £'000	2015 £'000
Impact of 10% strengthening of US Dollar against GB Pound	611	529

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

30. RELATED PARTY TRANSACTIONS

The following transactions were carried out with related parties:

Group

Remuneration of key management personnel

The remuneration of the Directors, who are the key management personnel of the Group, is set out below in aggregate. Further information about the remuneration of individual Directors is provided in the Directors' Remuneration Report on pages 39 to 50.

	2016 £'000	2015 £'000
Salaries and other short-term employee benefits	1,071	982
Employers' social security costs	90	90
Pension contributions to money purchase schemes	56	39
Share-based payments	215	85
	1,432	1,196

During the year no Directors (2015: 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 2016 was £21,000 (2015: £21,000) per annum.

Parent Company

Transactions with subsidiaries:

	2016 £'000	2015 £'000
Interest received from:		
Earthoil Plantations Limited	4	14
Earthoil Kenya PTY EPZ Limited	2	6
Dividends received from:		
R C Treatt & Co Limited	1,862	3,072
Treatt USA Inc	1,037	1,021

Balances with subsidiaries:

	2016 £'000	2015 £'000
Redeemable loan notes receivable:		
Earthoil Plantations Limited	950	950
Earthoil Kenya PTY EPZ Limited	400	400
Amounts owed to/(by) Parent Company:		
Earthoil Plantations Limited	13	(61)
R C Treatt & Co Limited	(712)	116

The redeemable loan notes were redeemed in full after the balance sheet date. Interest is receivable at 1% above UK base rate. Amounts owed to the Parent Company are unsecured and will be settled in cash.

Notice of Annual General Meeting

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

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

Notice of the Annual General Meeting which has been convened for 27 January 2017 at 10.30 am at Treatt plc, Northern Way, Bury St Edmunds, Suffolk IP32 6NL is set out below.

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

Notice is hereby given that the Annual General Meeting of the Shareholders of Treatt plc (the "Company") will be held at Treatt plc, Northern Way, Bury St Edmunds, Suffolk, IP32 6NL on 27 January 2017, at 10.30 am for the transaction of the following business:

Ordinary business

1. To receive the audited accounts and related reports of the Directors and Auditors for the year ended 30 September 2016.

2. To approve the Directors' Remuneration Report.

3. To approve a final dividend of 3.0p per share on the ordinary shares of the Company for the year ended 30 September 2016.

4. To re-elect Anita Haines as a Director of the Company.

5. To re-elect David Johnston as a Director of the Company.

6. To re-elect Jeff Iliffe as a Director of the Company.

7. To re-elect Richard Illek as a Director of the Company.

8. 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.

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

Special business

To consider and, if thought fit, to pass the following resolutions, of which Resolution 10 and 11 will be proposed as Ordinary Resolutions and Resolutions 12 to 14 will be proposed as Special Resolutions.

10. Approval of Remuneration Policy
    THAT:
    The Remuneration Policy be and is hereby approved.

11. Authority to allot securities
    THAT:
    (a) 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 (Rights) within the terms of the restrictions and provisions following; namely:
    (i) this authority shall (unless previously revoked, varied or renewed) expire on the earlier of the date of the next Annual General Meeting of the Company following the passing of this Resolution and 27 April 2018; and
    (ii) this authority shall be limited to the allotment of shares and the granting of Rights up to an aggregate nominal amount of £347,524 (representing approximately 33 per cent of the existing issued share capital of the Company).

(b) For the purpose of sub-paragraph (a) above:
   (i) the said power shall allow and enable the Directors to make an offer or agreement which would or might require shares to be allotted or Rights to be granted after such expiry and the Directors may allot shares and grant Rights in pursuance of such an offer or agreement as if the power conferred hereby had not expired; and
   (ii) words and expressions defined in or for the purpose of Part 17 of the Act shall bear the same meaning herein.

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

THAT:

(a) Conditionally upon the passing of Resolution 11 above and in accordance with Section 570 of the Act, the Directors be and are hereby given power to allot equity securities pursuant to the authority conferred by Resolution 11 above as if Section 561 of the said Act did not apply to any such allotment provided that:
   (i) the power hereby granted shall be limited:
      (aa) to the allotment of equity securities in connection with or pursuant to an offer by way of rights to the holders of shares in the Company and other persons entitled to participate therein, in the proportion (as nearly as may be) to such holders' holdings of such shares (or, as appropriate, to the number of shares which such other persons are for these purposes deemed to hold) subject only to such exclusions or other arrangements as the Directors may feel necessary or expedient to deal with fractional entitlements or legal or practical problems under the laws of or the requirements of any recognised regulatory body in any territory; and
      (bb) to the allotment (otherwise than pursuant to sub-paragraph (i)(aa) of this proviso) of equity securities up to an aggregate nominal amount of £52,655 (representing approximately 5 per cent of the existing issued share capital of the Company);
   (ii) the power hereby granted shall expire on the earlier of the date of the next Annual General Meeting of the Company following the passing of this Resolution and 27 April 2018;

(b) (i) the said power shall allow and enable the Directors to make an offer or agreement before the expiry of the said power which would or might require securities to be allotted pursuant to the agreement as if the power conferred herein had not expired; and
   (ii) words and expressions defined in or for the purpose of Part 17 of the Act shall bear the same meaning herein.

13. Disapplication of pre-emption rights for a further 5% of existing share capital for a specified capital investment

THAT:

(a) Conditionally upon the passing of Resolutions 11 and 12 above and in accordance with Section 570 of the Act, the Directors be and are hereby given power to allot equity securities pursuant to the authority conferred by Resolution 11 above as if Section 561 of the said Act did not apply to any such allotment provided that:
   (i) the power hereby granted shall be limited pursuant to paragraph (a)(i)(aa) of Resolution 12 up to an aggregate nominal amount of £52,655 (representing a further 5 per cent of the existing issued share capital of the Company);
   (ii) the power hereby granted shall expire on the earlier of the date of the next Annual General Meeting of the Company following the passing of this Resolution and 27 April 2018;

(b) (i) the said power shall allow and enable the Directors to make an offer or agreement before the expiry of the said power which would or might require securities to be allotted pursuant to the agreement as if the power conferred herein had not expired; and
   (ii) words and expressions defined in or for the purpose of Part 17 of the Act shall bear the same meaning herein.

14. Authority to purchase own shares

THAT:

The Company is hereby generally and unconditionally authorised to make market purchases (within the meaning of Section 693 of the Act) of ordinary shares of 2p each in the capital of the Company ("ordinary shares") provided that:

(a) the maximum number of ordinary shares authorised to be purchased is 5,265,517 (representing approximately 10 per cent of the present issued share capital of the Company);
(b) the minimum price (excluding stamp duty, dealing or other costs) which may be paid for an ordinary share so purchased is 2p;
(c) the maximum price which may be paid for an ordinary share so purchased is an amount equal to 5 per cent above the average of the middle market quotations shown for an ordinary share in The London Stock Exchange Daily Official List on the five business days immediately preceding the day on which that ordinary share is purchased;
(d) the authority hereby conferred shall expire at the conclusion of the Annual General Meeting of the Company to be held in 2018, unless such authority is renewed, varied or revoked prior to such time; and
(e) the Company may prior to the expiry of such authority make a contract to purchase ordinary shares under the authority hereby conferred which will or may be executed wholly or partly after the expiry of such authority, and may make a purchase of ordinary shares in pursuance of any such contract.

By order of the Board

ANITA STEER
Secretary
9 December 2016

Registered Office:

Northern Way
Bury St Edmunds,
Suffolk IP32 6NL

The note on voting procedures and general rights of shareholders, together with explanatory notes on the resolutions to be put to the meeting, which follow on pages 93 to 94 form part of this notice.

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 25 January 2017 (the Record Date) shall be entitled to attend or vote at the AGM in respect of the number of ordinary shares in the capital of the Company registered in their names at that time. Changes to entries on the Register for certificated or uncertificated shares of the Company after the Record Date shall be disregarded in determining the rights of any person to attend or vote at the AGM. Should the AGM be adjourned to a time not more than 48 hours after the Record Date, that time will also apply for the purpose of determining the entitlement of members to attend and vote (and for the purpose of determining the number of votes they may cast) at the adjourned AGM. Should the AGM be adjourned for a longer period, to be so entitled, members must have been entered on the Register by close of business two days prior to the adjourned AGM (excluding weekends and public holidays) or, if the Company gives notice of the adjourned AGM, at the time specified in such notice.

Voting at the meeting will be conducted by poll rather than on a show of hands, which the Board believes provides a more accurate reflection of shareholder views and takes into account the number of shares held by each member. Those shareholders who are unable to attend the meeting should submit a form of proxy as detailed below. Shareholders attending the meeting may also wish to vote in advance of the meeting by submitting a form of proxy. Members who have done so will not need to vote at the meeting unless they wish to change their vote or the way in which the proxy is instructed to vote.

A member entitled to attend and vote at this meeting may appoint a proxy or proxies to attend and vote instead of him or her. The proxy need not be a member of the Company. A form of proxy is provided with this notice and instructions for use are shown on the form. Additional forms of proxy can be obtained from the Company's registrars on tel no 0871 664 0300 (Calls cost 12p per minute plus your phone company's access charge. Lines are open between 09:00 - 17:30, Monday to Friday excluding public holidays in England and Wales). Instruments appointing proxies must be lodged with the Company's registrars not less than 48 hours before the time fixed for the meeting to be effective. Completion and return of a form of proxy will not preclude a member from attending and voting in person at the meeting or any adjournment of the meeting.

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 27 January 2017 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.

The right to appoint a proxy does not apply to persons whose shares are held on their behalf by another person and who have been nominated to receive communications from the company in accordance with section 146 of the Companies Act 2006 ("nominated persons"). Nominated persons may have a right under an agreement with the registered shareholder who holds the shares on their behalf to be appointed (or to have someone else appointed) as a proxy. Alternatively, if nominated persons do not have such a right, or do not wish to exercise it, they may have a right under such an agreement to give instructions to the person holding the shares as to the exercise of voting rights.

A member of the Company which is a corporation may authorise a person or persons to act as its representative(s) at the AGM. In accordance with the provisions of the Companies Act 2006 (as amended by the Companies (Shareholders' Rights) Regulations 2009), each such representative may exercise (on behalf of the corporation) the same powers as the corporation could exercise if it were an individual member of the Company, provided that they do not do so in relation to the same shares. It is therefore no longer necessary to nominate a designated corporate representative.

Notice of Annual General Meeting continued

Pursuant to Section 319A of the Companies Act 2006, the Company must cause to be answered at the AGM any question relating to the business being dealt with at the AGM which is put by a member attending the meeting, except in certain circumstances, including if it is undesirable in the interests of the Company or the good order of the meeting that the question be answered or if to do so would involve the disclosure of confidential information.

Members satisfying the thresholds in Section 338 of the Companies Act 2006 may require the Company to give, to members of the Company entitled to receive notice of the AGM, notice of a resolution which those members intend to move (and which may properly be moved) at the AGM. A resolution may properly be moved at the AGM unless (i) it would, if passed, be ineffective (whether by reason of any inconsistency with any enactment or the Company's constitution or otherwise); (ii) it is defamatory of any person; or (iii) it is frivolous or vexatious. The business which may be dealt with at the AGM includes a resolution circulated pursuant to this right. A request made pursuant to this right may be in hard copy or electronic form, must identify the resolution of which notice is to be given, must be authenticated by the person(s) making it and must be received by the Company not later than 6 weeks before the date of the AGM.

Members satisfying the thresholds in Section 338A of the Companies Act 2006 may request the Company to include in the business to be dealt with at the AGM any matter (other than a proposed resolution) which may properly be included in the business at the AGM. A matter may properly be included in the business at the AGM unless (i) it is defamatory of any person or (ii) it is frivolous or vexatious. A request made pursuant to this right may be in hard copy or electronic form, must identify the matter to be included in the business, must be accompanied by a statement setting out the grounds for the request, must be authenticated by the person(s) making it and must be received by the Company not later than 6 weeks before the date of the AGM.

In accordance with Section 311A of the Companies Act 2006, the contents of this notice of meeting details the total number of shares in respect of which members are entitled to exercise voting rights at the AGM, the total voting rights members are entitled to exercise at the AGM and, if applicable, any members' statements, members' resolutions or members' matters of business received by the Company after the date of this notice will be available on the Company's website www.treatt.com.

As at 24 November 2016 the Company's issued share capital consists of 52,655,170 ordinary shares. The total number of voting rights in the Company as at 24 November 2016 (the latest practicable reporting date prior to publication of this document) is 51,837,193.

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.

EXPLANATORY NOTES

Report and Accounts (Resolution 1)
The Directors of the Company must present the accounts to the meeting.

Directors' Remuneration Report (Resolution 2)
The Companies Act 2006, implemented by the Enterprise and Regulatory Reform Act 2013, provides that a quoted company may not make a remuneration payment to a Director of the Company unless the payment is consistent with the Company's Remuneration Policy, as approved by shareholders, or the payment is approved by a Shareholders' Resolution. The legislation requires two resolutions to be put to shareholders on separate sections of the Directors' Remuneration Report.The first of these is an advisory resolution on the Implementation Section of the Directors' Remuneration Report, which details the remuneration packages paid to Directors during the year ended 30 September 2016. You can find the Implementation Section of the Directors' Remuneration Report on pages 39 to 50.

Declaration of a dividend (Resolution 3)
A final dividend can only be paid after the shareholders at a general meeting have approved it. A final dividend of 3.0 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 17 February 2017. If approved, the date of payment of the final dividend will be 23 March 2017. An interim dividend of 1.35 pence per ordinary share was paid on 14 October 2016. This represents an increase of 0.31 pence per share, or 7.67 per cent, on the total 2015 dividend.

Re-election of Directors (Resolutions 4, 5, 6 and 7)
In accordance with the Articles of Association, all Directors retire at least every three years and all newly appointed Directors retire at the first Annual General Meeting following their appointment. Furthermore, any Non-executive Director having been in post for nine years or more is subject to annual re-election.

At this meeting, Anita Haines, David Johnston, Jeff Iliffe and Richard Illek will retire and stand for re-election as Directors. Short biographies of these Directors are given on page 24. Having considered the performance of, and contribution made, by each of the Directors standing for re-election the Board remains satisfied that the performance of each of the relevant Directors continues to be effective and to demonstrate commitment to the role and, as such, recommends their re-election.

Reappointment and remuneration of auditors (Resolutions 8 and 9)
Resolutions 8 and 9 propose the reappointment of RSM UK Audit LLP as Auditors of the Company and authorise the Directors to set their remuneration.

Remuneration Policy Report (Resolution 10)
As referred to under Resolution 2 above, two resolutions are required to be put to shareholders on separate sections of the Directors' Remuneration Report. The second of these is a binding resolution, passed by a majority, to approve the Company's Remuneration Policy. Although the policy was approved at the 2015 Annual General Meeting, the proposed revision

to the Annual Bonus of the Executive Directors requires the approval of Shareholders. Once approved, a Remuneration Policy only requires Shareholder approval every three years unless any revisions are required. The policy, which is set out on pages 48 to 50, will apply to all payments made to Directors from the date the policy is approved by shareholders. In the event that this resolution is not passed at the Annual General Meeting, the version of the Remuneration Policy approved by shareholders in 2015 will continue in force.

Directors' authority to allot securities (Resolution 11)

The Company may only allot ordinary shares or grant rights over ordinary shares if authorised to do so by shareholders. This resolution seeks to grant authority to the Directors to allot unissued share capital of the Company and grant rights and will expire at the conclusion of the next Annual General Meeting of the Company in 2017 or, if earlier, on 27 April 2018 (the date which is 15 months after the date of passing of the resolution). There is no present intention of exercising this authority, which would give Directors authority to allot relevant securities up to an aggregate nominal value of £347,524 approximately 33 per cent of the Company's issued ordinary share capital as at 24 November 2016.

Disapplication of pre-emption rights (Resolution 12)

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 12 asks the shareholders to do this and, apart from rights issues or any other pre-emptive offer concerning equity securities, the authority will be limited to the issue of shares for cash up to a maximum aggregate nominal value of £52,655 (which includes the sale on a non pre-emptive basis of any shares held in treasury), which is equivalent to approximately 5 per cent of the Company's issued ordinary share capital as at 24 November 2016. 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 2018 or, if earlier, 27 April 2018 (the date which is 15 months after the date of passing of the resolution).

Disapplication of pre-emption rights for a further 5% of existing share capital for a specified capital investment (Resolution 13)

The Directors are seeking 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 Pre-emption Group 2015 Statement of Principles for the disapplication of pre-emption rights (the "Statement of Principles"). Accordingly, Resolution 13 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 £52,655 (being five per cent of the Company's issued ordinary share capital at 24 November 2016, the latest practicable date prior to publication of this notice). This is in addition to the five per cent referred to in Resolution 12. If given, this power will expire on 27 April 2018 or at the conclusion of the AGM in 2018, whichever is the earlier. 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 a specified capital investment (within the meaning of the Statement of Principles from time to time) which is announced contemporaneously with the issue, or which has taken place in the preceding six month period and is disclosed in the announcement of the issue. As at 24 November 2016 the only specified capital investment proposed in this context is the potential site relocation in the UK.

Authority to purchase own shares (Resolution 14)

In certain circumstances, it may be advantageous for the Company to purchase its own shares and resolution 14 seeks the authority from shareholders to continue to do so. The Directors will continue to exercise this power only when, in the light of market conditions prevailing at the time, they believe that the effect of such purchases will be to increase earnings per share and is in the best interests of shareholders generally. Other investment opportunities, appropriate gearing levels and the overall position of the Company will be taken into account when exercising this authority.

Any shares purchased in this way will be cancelled and the number of shares in issue will be reduced accordingly, save that the Company may hold in treasury any of its own shares that it purchases pursuant to the Act and the authority conferred by this resolution. This gives the Company the ability to re-issue treasury shares quickly and cost-effectively and provides the Company with greater flexibility in the management of its capital base. It also gives the Company the opportunity to satisfy employee share scheme awards with treasury shares. Once held in treasury, the Company is not entitled to exercise any rights, including the right to attend and vote at meetings in respect of the shares. Further, no dividend or other distribution of the Company's assets may be made to the Company in respect of the treasury shares.

The resolution specifies the maximum number of ordinary shares that may be acquired (approximately 10 per cent of the Company's issued ordinary share capital as at 24 November 2016) 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 24 November 2016 (the latest practicable reporting date prior to publication of this document) was 2,054,300. The proportion of issued share capital that they represented at that time was 3.9 per cent and the proportion of issued share capital that they will represent if the full authority to purchase shares (existing and being sought) is used is 4.3 per cent.

Resolution 14 will be proposed as a Special Resolution to provide the Company with the necessary authority. If given, this authority will expire at the conclusion of the next Annual General Meeting of the Company in 2018 or, if earlier, 27 April 2018 (the date which is 15 months after the date of passing of the resolution).

The Directors intend to seek renewal of this power at subsequent Annual General Meetings.

Parent Company Information and Advisers

Directors	Tim Jones (Chairman and Non-executive Director) Daemmon Reeve (Chief Executive Officer) Richard Hope (Finance Director) Anita Haines (Non-executive Director) Jeff Iliffe (Non-executive Director) Richard Illek (Non-executive Director – from 1 June 2016) David Johnston (Senior Independent Non-executive Director) Ian Neil (Non-executive Director – until 29 January 2016)
Secretary	Anita Steer
Registered Office	Northern Way, Bury St Edmunds, Suffolk, IP32 6NL Tel: + 44 (0) 1284 702500 Email: cosec@treatt.com Website: http://www.treatt.com
Registered Number	1568937
Audit Committee	Jeff Iliffe (Chairman) David Johnston Tim Jones Ian Neil (until 29 January 2016)
Remuneration Committee	Ian Neil (Chairman – until 29 January 2016) David Johnston (Chairman – from 29 January 2016) Jeff Iliffe Richard Illek (from 22 July 2016) Tim Jones
Nomination Committee	Tim Jones (Chairman) Daemmon Reeve Anita Haines Jeff Iliffe Richard Illek (from 22 July 2016) David Johnston Ian Neil (until 29 January 2016)
Brokers	Investec Investment Banking, 2 Gresham Street, London, EC2V 7QP.
Auditors	RSM UK Audit LLP, Abbotsgate House, Hollow Road, Bury St Edmunds, Suffolk, IP32 7FA
Solicitors	Greene and Greene, 80 Guildhall Street, Bury St Edmunds, Suffolk, IP33 1QB.
Bankers	HSBC Bank plc, 140 Leadenhall Street, London, EC3V 4PS. Lloyds Banking Group, Black Horse House, Castle Park, Cambridge, CB3 0AR. Bank of America, 5th Floor, 101 E. Kennedy Boulevard, Tampa, FL 33602.
Registrars	Capita Asset Services, The Registry, 34 Beckenham Road, Beckenham, Kent, BR3 4TU.
Share Price	Treatt plc's share price is available on www.ft.com. Annual and interim reports are available on the Group's website (www.treatt.com).

Financial Calendar

2015/16

Financial year ended	30 September 2016
Results for year announced	29 November 2016
Annual Report and Financial Statements published	9 December 2016
Annual General Meeting	27 January 2017
Final dividend for 2016 goes 'ex-dividend'	16 February 2017
Record date for 2016 final dividend	17 February 2017
Last day for dividend reinvestment plan election	26 February 2017
Final dividend for 2016 paid	23 March 2017

2016/17

Interim results to 31 March 2017 announced	9 May 2017*
Interim dividend for 2017 goes 'ex-dividend'	13 July 2017*
Record date for 2017 interim dividend	14 July 2017*
Last day for dividend reinvestment plan election	23 July 2017*
Interim dividend for 2017 paid	17 August 2017*
Financial year ended	30 September 2017
Results for year to 30 September 2017 announced	28 November 2017*
Final dividend for 2017 paid	22 March 2018*

* These dates are provisional and may be subject to change

Designed and produced by corporate**prm**, Edinburgh and London. www.corporateprm.co.uk

TREATT

Treatt plc
Northern Way,
Bury St Edmunds,
Suffolk, IP32 6NL UK

Tel: 01284 702500
Fax: 01284 703809
Email: enquiries@treatt.com

www.treatt.com
www.earthoil.com