Full Year Results

Year ended 30 September 2016

Contents

TREATT PLC
FULL YEAR RESULTS
YEAR ENDED 30 SEPTEMBER 2016

Adjusted profit before tax up 11% and adjusted EPS up 8% as the Group delivers fourth consecutive year of record results

Treatt Plc, the manufacturer and supplier of ingredient solutions for the flavour, fragrance and FMCG industries, announces today its results for the year ended 30 September 2016.

HIGHLIGHTS of our year:

- Revenues for the year up 2% to £88.0 million (2015: £85.9 million)
- Operating profit increased by 10% to £9.5m (2015: £8.7m)
- Adjusted profit before tax* increased by 11% to £8.8m (2015: £8.0m)
- Return on capital employed of 24.6% (2015: 22.1%)
- Free cash flow of £8.0m (2015: £6.2m)
- Adjusted basic earnings per share* increased by 8% to 12.84p (2015: 11.94p)
- Total Dividend per share increased by 8% to 4.35p (2015: 4.04p)

Commenting on the results, CEO Daemmon Reeve said:
"Building on our solid progress, the team has once again performed strongly to deliver on our objective of sustainable growth in profits. The new financial year has started well. We have much to do across the business to ensure we build on the work of our people over the past year and be able to take advantage of the many opportunities ahead of us."

Notes:
* All adjusted measures exclude exceptional items – see note 7

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CHAIRMAN'S STATEMENT

"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"

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.

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, 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

Notes:
* All adjusted measures exclude exceptional items, details of which are given in note 7

CHIEF EXECUTIVE OFFICER'S REPORT

"Another good year for the Group as we continue to deliver 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 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.

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 clients 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 clients 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 for our customers 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.

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

Notes:
* All adjusted measures exclude exceptional items, details of which are given in note 7

FINANCIAL REVIEW

"Adjusted profit before tax increased by 11% - four consecutive years of consistent, sustainable, growth - and net debt reduced to below £2m"*

Financial overview	2016	
Revenue	**£88.0m**	**+2.5%**
Profit before tax*	**£8.8m**	**+11.3%**
Dividend	**4.35p**	**+7.7%**
Earnings per share*	**12.84p**	**+7.5%**

Key performance indicators	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 10%, 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 below, 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.

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 7.

Compound 10 year growth per annum*	
Revenue	**9.5% pa**
Profit before tax	**10.4% pa**
Earnings per share	**10.7% pa**
EBITDA	**9.7% pa**

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 9 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).

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 below) 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 £0.5m 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%**
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 with 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

* All measures are adjusted to exclude exceptional items.

TREATT PLC

FULL YEAR RESULTS

GROUP INCOME STATEMENT

for the year ended 30 September 2016

	Notes	2016 £'000	2015 £'000
Revenue	6	**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		**9,549**	8,690
Net finance costs		**(703)**	(740)
Profit before taxation and exceptional items		**8,846**	7,950
Exceptional items	7	**(553)**	(174)
Profit before taxation		**8,293**	7,776
Taxation	8	**(2,144)**	(1,786)
Profit for the period attributable to owners of the Parent Company		**6,149**	5,990
Earnings per share			
Basic	9	**11.85p**	11.64p
Diluted	9	**11.68p**	11.55p
Adjusted basic	9	**12.84p**	11.94p
Adjusted diluted	9	**12.65p**	11.85p

All amounts relate to continuing operations

The notes on pages 22 to 23 form part of this full year results announcement

GROUP STATEMENT OF COMPREHENSIVE INCOME

for the year ended 30 September 2016

	2016 £'000	2015 £'000
Profit for the period 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 period	**(1,005)**	(4)
Total comprehensive income for the period attributable to owners of the Parent Company	**5,144**	5,986

The notes on pages 22 to 23 form part of this full year results announcement

GROUP STATEMENT OF CHANGES IN EQUITY

for the year ended 30 September 2016

	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 period	-	-	-	-	-	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 period	-	-	-	-	-	6,149	**6,149**
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**

The notes on pages 22 to 23 form part of this full year results announcement

GROUP BALANCE SHEET

as at 30 September 2016

	2016 £'000	2015 £'000
ASSETS		
Non-current assets		
Goodwill	2,727	1,075
Other intangible assets	637	661
Property, plant and equipment	11,361	10,998
Deferred tax assets	1,436	647
	16,161	13,381
Current assets		
Inventories	29,990	25,799
Trade and other receivables	17,853	17,635
Current tax assets	4	134
Cash and bank balances	6,588	1,477
	54,435	45,045
Total assets	70,596	58,426
LIABILITIES		
Current liabilities		
Borrowings	(487)	(567)
Provisions	(67)	(239)
Trade and other payables	(14,151)	(10,885)
Current tax liabilities	(999)	(810)
Derivative financial instruments	(9)	(305)
Redeemable loan notes payable	(675)	(675)
	(16,388)	(13,481)
Net current assets	38,047	31,564
Non-current liabilities		
Borrowings	(7,755)	(7,065)
Post-employment benefits	(7,401)	(2,959)
Deferred tax liabilities	(1,111)	(1,037)
Derivative financial instruments	(754)	(699)
	(17,021)	(11,760)
Total liabilities	(33,409)	(25,241)
Net assets	37,187	33,185

GROUP BALANCE SHEET (continued)

as at 30 September 2016

	2016 £'000	2015 £'000
EQUITY		
Share capital	**1,053**	1,050
Share premium account	**2,757**	2,757
Own shares in share trusts	**(332)**	(423)
Hedging reserve	**(627)**	(700)
Foreign exchange reserve	**3,675**	1,119
Retained earnings	**30,661**	29,382
Total equity attributable to owners of the Parent Company	**37,187**	33,185

The notes on pages 22 to 23 form part of this full year results announcement

GROUP STATEMENT OF CASH FLOWS
for the year ended 30 September 2016

	2016 £'000	2015 £'000
Cash flow from operating activities		
Profit before taxation	8,293	7,776
Adjusted for:		
Depreciation of property, plant and equipment	1,347	1,244
Amortisation of intangible assets	142	175
Loss on disposal of property, plant and equipment	2	46
Net finance costs	703	740
Share-based payments	566	198
(Increase)/decrease in fair value of derivatives	(122)	143
Increase/(decrease) in post-employment benefit obligations	145	(208)
Operating cash flow before movements in working capital	11,076	10,114
Movements in working capital:		
(Increase)/decrease in inventories	(2,501)	2,907
Decrease/(increase) in trade and other receivables	688	(2,282)
Increase/(decrease) in trade and other payables, and provisions	1,541	(2,072)
Cash generated from operations	10,804	8,667
Taxation paid	(2,022)	(1,469)
Net cash from operating activities	8,782	7,198
Cash flow from investing activities		
Investment in subsidiaries	(752)	-
Proceeds on disposal of property, plant and equipment	-	5
Purchase of property, plant and equipment	(679)	(924)
Purchase of intangible assets	(109)	(108)
Interest received	8	1
	(1,532)	(1,026)

GROUP STATEMENT OF CASH FLOWS (continued)
for the year ended 30 September 2016

	2016 £'000	2015 £'000
Cash flow from financing activities		
Increase/(decrease) in bank loans	**381**	(2,145)
Interest paid	**(711)**	(741)
Dividends paid	**(2,095)**	(1,978)
Net sale of own shares by share trusts	**265**	180
	(2,160)	(4,684)
Net increase in cash and cash equivalents	**5,090**	1,488
Effect of foreign exchange rates	**15**	(33)
Movement in cash and cash equivalents in the period	**5,105**	1,455
Cash and cash equivalents at beginning of period	**1,476**	21
Cash and cash equivalents at end of period	**6,581**	1,476
Cash and cash equivalents comprise:		
Cash and bank balances	**6,588**	1,477
Bank borrowings	**(7)**	(1)
	6,581	1,476

The notes on pages 22 to 23 form part of this full year results announcement

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 period	**5,105**	1,455
Repayment/(increase) in bank loans	**(381)**	2,145
Cash outflow from changes in net debt in the period	**4,724**	3,600
Effect of foreign exchange rates	**(223)**	(171)
Movement in net debt in the period	**4,501**	3,429
Net debt at beginning of period	**(6,155)**	(9,584)
Net debt at end of period	**(1,654)**	(6,155)

The notes on pages 22 to 23 form part of this full year results announcement

NOTES TO THE FULL YEAR RESULTS

1. Basis of preparation

In accordance with Section 435 of the Companies Act 2006, the Group confirms that the financial information for the years ended 30 September 2016 and 2015 are derived from the Group's audited financial statements and that these are not statutory accounts and, as such, do not contain all information required to be disclosed in the financial statements prepared in accordance with International Financial Reporting Standards ("IFRS"). The statutory accounts for the year ended 30 September 2015 have been delivered to the Registrar of Companies. The statutory accounts for the year ended 30 September 2016 have been audited and approved, but have not yet been filed.

The Group's audited financial statements for the year ended 30 September 2016 received an unqualified audit opinion and the auditor's report contained no statement under section 498(2) or 498(3) of the Companies Act 2006.

The financial information contained within this preliminary statement was approved and authorised for issue by the Board on 28 November 2016.

2. Accounting policies

These financial statements have been prepared in accordance with the accounting policies set out in the full financial statements for the year ending 30 September 2015.

There were no new standards and amendments to standards which are mandatory and relevant to the Group for the first time for the financial year ending 30 September 2016 which had a material effect on this preliminary statement.

3. Accounting estimates

The preparation of the preliminary statement requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expenses. In preparing this preliminary statement, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those applied to the audited consolidated financial statements as at, and for the year ended, 30 September 2015.

4. Going concern

As at the date of this report, the Directors have a reasonable expectation that the Group has adequate resources to continue in business for the foreseeable future. During the year all the Group's expiring banking facilities have been renewed on existing or improved terms. Accordingly, this preliminary statement has been prepared on the going concern basis.

5. Risks and uncertainties

The operation of a public company involves a series of risks and uncertainties across a range of strategic, commercial, operational and financial areas. The principal risks and uncertainties that could have a material impact on the Group's performance over the next twelve months (for example, causing actual results to differ materially from expected results or from those experienced previously) are the same in all material respects as those detailed on pages 23-26 of the 2015 Annual Report and Financial Statements.

NOTES TO THE FULL YEAR RESULTS (continued)

6. Segmental information

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).

7. Exceptional items

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

	2016 £'000	2015 £'000
Legal and professional fees	302	174
Compensation for loss of office	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 FULL YEAR RESULTS (continued)

8. Taxation

	2016	2015
	£'000	£'000
Analysis of tax charge for the year		
Current tax:		
UK corporation tax on profits for the period	**967**	956
Adjustments to UK tax in respect of previous period	**9**	(11)
Overseas corporation tax on profits for the period	**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 timing 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	**(210)**	(123)
Tax on profit on ordinary activities	**2,144**	1,786
Analysis of tax charge/(credit) in other comprehensive income (OCI):		
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 OCI	**(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)

9. Earnings per share

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 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 7)	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 FULL YEAR RESULTS (continued)

10. Dividends
Equity dividends on ordinary shares:

	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 in accordance with IFRS has not been included as a deduction from equity at 30 September 2016. The dividend was paid on 14 October 2015 to those shareholders on the register at 9 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. Related party transactions

Treatt Plc, the Parent Company, entered into the following material transactions with related parties:

Transactions with subsidiaries

	2016 £'000	2015 £'000
Interest received on loan notes 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

NOTES TO THE FULL YEAR RESULTS (continued)

11. Related party transactions (continued)

Balances with subsidiaries:

	2016	2015
	£'000	£'000
Redeemable loan notes receivable:		
Earthoil Plantations Limited	**950**	950
Earthoil Kenya PTY EPZ Limited	**400**	400
Amounts owed to/(by) parent undertaking:		
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.

CAUTIONARY STATEMENT ABOUT FORWARD-LOOKING STATEMENTS

This announcement contains forward-looking statements that are subject to risk factors associated with, among other things, the economic and business circumstances occurring from time to time in the countries, sectors and markets in which the Group operates. It is believed that the expectations reflected in these statements are reasonable but they may be affected by a wide range of variables which could cause actual results to differ materially from those currently anticipated. No assurances can be given that the forward-looking statements in this announcement will be realised. The forward-looking statements reflect the knowledge and information available at the date of preparation of this announcement and the Group undertakes no obligation to update these forward-looking statements. Nothing in this announcement should be construed as a profit forecast.