Full Year Results

For the year ended 30 September 2019

TREATT

Contents

TREATT PLC
FULL YEAR RESULTS
YEAR ENDED 30 SEPTEMBER 2019

Profit before tax and exceptional items up 5.2% despite citrus and foreign exchange headwinds*

Treatt plc, the manufacturer and supplier of innovative ingredient solutions for the flavour, fragrance, beverage and consumer product industries, announces today its results for the year ended 30 September 2019.

FINANCIAL HIGHLIGHTS*:

	Financial year ended 30 September 2019	**Financial year ended 30 September 2018**	**Change**
Revenue	**£112.7m**	£112.2m	+0.5%
Gross profit	**£28.7m**	£27.8m	+3.2%
Gross profit margin	**25.4%**	24.7%	+70 bps
Profit before tax and exceptional items	**£13.3m**	£12.6m	+5.2%
Adjusted basic earnings per share	**17.82p**	18.02p	(1.1)%
Dividend per share	**5.50p**	5.10p	+7.8%

Cash generated from operations increased to £20.5m (2018: £3.6m), driven by improved working capital.

OPERATIONAL HIGHLIGHTS*:

- Delivering good progress against 2022 strategy.
  - 81% of Group revenue from natural and clean-label products
- Diversification of portfolio progressing well.
  - Citrus revenue down 10%, substantial fall in raw material prices
  - Revenue growth of 16% in non-citrus categories
- US facility investment completed, capacity on stream from 2020.
- UK relocation build underway.

Note:
* All measures are based on continuing operations.

Commenting on the results, CEO Daemmon Reeve said:

“I am pleased to report that the Group delivered solid results for the year. The strength of our strategy shone through strongly as we increased our profitability in the face of citrus market headwinds. To have decoupled our financial performance from external market factors which were once a dominant feature of Treatt’s financial performance augers well for our future.”

“We are driving ahead with confidence and whilst it is still early in the new financial year, the Group continues to perform in line with the Board’s expectations for the year ending 30 September 2020.”

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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.

Chairman's statement

A successful year with increased profits and strong cash inflows*

Performance

I am delighted to report increased profits* and strong cash inflows for the year. This performance is all the more notable in the context of the challenge created by the sharp fall in citrus oil prices during the year, combined with the effect of adverse foreign exchange headwinds. Treatt's largest product category, citrus, was impacted by one of the sharpest falls ever recorded in the commodity price of orange oil and consequently our strategy of diversifying our product portfolio has proven to be important in delivering the Group's seventh consecutive year of growth in profits*. To maintain revenues and grow profits* in the face of such market conditions is an extraordinary testament to the Treatt team and the passion and determination with which they work.

Treatt's expertise in citrus, developed over the Group's long history spanning more than 130 years, came to the fore over this challenging period with our close relationships with growers and markets also informing our decision making.

The effect on the business of the sharp fall in orange oil prices was mitigated in no small part by the diversification of the Group's product mix in line with our strategic vision. We have seen accelerating growth rates in tea, with iced tea a large and growing segment around the world. Consumer preference for healthier beverages has continued its upward trend, which – along with sugar taxes in some markets – has driven demand for our innovations in lower calorie solutions as well as our real fruit and vegetable extracts. Consumers are increasingly looking for lower sugar options and natural, clean-label products, alongside interesting innovations as evidenced in the wide array of beverages available on the supermarket shelf.

Thanks to the hard work and dedication of our teams, a real highlight of the year was delivered without disruption, in the expansion of our US facility. This investment adds significant manufacturing capacity and expands our global technical and research & development capabilities, providing a strong platform for future growth. Construction of the new UK facility is underway with a view to transforming our operational capability, efficiency and working environment. The new and expanded facilities will give us the scalable platform to continue to invest in our core categories, increase our product capabilities and achieve further diversification, including our recently launched innovative range of coffee products for the large and rapidly growing ready-to-drink (RTD) and cold brew coffee markets.

People, culture and stakeholder engagement

The efforts of Team Treatt over the last year have been outstanding. Such strong performance is powerful testimony to what can be achieved when a team pulls together. I am proud of the collegiate culture at Treatt; it is a hallmark of the organisation and at the core of its success.

I have always operated an open-door policy; it is my view that teams which care about each other, the business and our communities work with greater pride and motivation which manifests itself in superior performance to the benefit of everybody. We formalised the Board's engagement with employees at the beginning of the year by putting in place Employee Voice sessions. At least every six months David Johnston, the Senior Independent Director, or I, hold well-publicised sessions during which colleagues can come to us individually or in groups. These forums enable staff to say whatever they wish, and the Board to be grounded in the real sentiments, views and issues that might be at hand.

I was delighted that Treatt's success over the last seven years, since Daemmon Reeve became Chief Executive, was recently recognised through Daemmon being awarded an honorary doctorate by the University of Suffolk. This is testament to the way our community thinks of Treatt today and reflects the fact that contributing to the communities in which we operate is a value at the heart of our ethos.

Environmental, social and governance matters are ever more of mind for the Board as the business seeks to minimise its impact, more information on which will be provided in our 2019 annual report which is due to be published shortly.

Board changes

As mentioned in last year's annual report, Anita Haines retired as a Non-executive Director at the beginning of the year. Anita joined Treatt in 1988, initially as Company Secretary before moving into HR. She subsequently served 16 years on the Board and championed the people agenda that has been so central to Treatt's success. I wish to thank Anita for her invaluable contributions over a period that saw Treatt change significantly.

Having reviewed the skills and experience of the Board to help take the company forward into the next phase of its growth, we decided to recruit two Non-executive Directors and were joined in the spring by Yetunde Hofmann and Lynne Weedall. Both have distinguished careers in relation to HR, change management and strategy in the global fast-moving consumer goods (FMCG) sector and I am delighted to welcome them as first-class additions to the Board.

Dividend

The Directors propose to pay a final dividend of 3.80p per share (2018: 3.50p), an increase in the total dividend for the year of 7.8% to 5.50p (2018: 5.10p). If approved by shareholders at the Annual General Meeting, the final dividend will be payable on 19 March 2020 to all shareholders on the register at the close of business on 7 February 2020. Shareholders who wish to participate in the dividend re-investment plan for this and future dividends should elect to do so by 27 February 2020.

Outlook

The next year will see us capitalising on the benefits of our enhanced facility in the US and completing our relocation in the UK, scheduled for late 2020. Both are major milestones in Treatt's development, and we are excited about the opportunities they open up. Ongoing consumer trends that favour innovative, natural and authentic flavours will continue to underpin demand for our expertise, and the recent launch of our coffee proposition adds a further pillar to our offering for both existing and new customers.

While we are not immune to the geopolitical challenges posed by factors such as the US-China trade dispute or the UK's relationship with the EU, our operating model gives us flexibility to optimise variables across production, tariffs, exchange rates or other relevant metrics between the UK and US.

With our expert teams, our work to enhance our operational capabilities and our product innovations the business has never been stronger, and we look forward with optimism.

Tim Jones

Chairman

25 November 2019

* 'Profits' refers to profit before exceptional items and discontinued operations, details of which can be found in notes 7 and 9 of this full year results statement.

Chief Executive's review

Building a platform for growth

Summary

- The Group delivered solid results, notwithstanding a fall in the citrus market
- We have achieved exceptional growth in our non-citrus categories
- Investments in our infrastructure are underway and on track
- We have strong grounds to look to the future with confidence

Delivering sound performance

I am pleased to report that the Group delivered solid results for the year, notwithstanding a very significant fall in certain citrus raw material prices and some foreign currency headwinds which had an impact on profitability. Revenue from continuing operations grew by 0.5% (a decrease of 2% in constant currency) relative to the preceding year to reach £112.7m (2018: £112.2m) producing a profit before tax and exceptional items* for the year of £13.3m, in line with management expectations. This represents an increase of 5.2% relative to the preceding year (2018: £12.6m).

As announced earlier in the year, revenue for the year was impacted by a substantial fall in citrus raw material input prices, with orange oil (which accounts for around one third of Group revenue) prices dropping by more than 50% over the year, and lemon oil prices also experiencing significant weakness. To have delivered such strong results during a period of unprecedented turbulence in key raw material markets is a remarkable achievement and a demonstration of the commitment and expertise of my colleagues, as well as further confirmation of the continued success of our strategy.

Diversifying our portfolio

Although reported revenue for our citrus category (representing 54% of the Group total) decreased by 10%, this suppressed performance in our largest category was more than counterbalanced by the exceptional 16% growth in our non-citrus revenues. Sales in our tea category grew by 42%, health & wellness (including sugar reduction) increased by 23%, and fruit & vegetables grew by 35% as our clean-label innovations continue to resonate with consumer demand for "better-for-you" options, particularly in our core beverage market. While natural propositions account for more than 80% of the Group's portfolio, we also saw pleasing revenue growth of 16% in synthetic fragrance and flavour products.

In addition to these growth areas, we are excited to have recently launched a competitive proposition in the coffee category. The global ready-to-drink (RTD) coffee market is valued at $19.05bn and is expected to increase markedly in the coming years and we have been encouraged by customers to help them harness the opportunities in the fast-growing cold brew segment. Coffee oxidises quickly, hence historically it has been difficult to develop natural solutions to preserve flavour and freshness. We continue to build our IP-led, proprietary extraction capabilities in this area as well as embedding supportive roasting capacity. It is early days, but customer feedback gives us confidence that coffee will become another strong pillar in our increasingly diversified portfolio and may deliver 1%-2% of revenue growth in the financial year.

In terms of the geographical markets we serve, we are encouraged by our progress in China, which is a key area of focus. The North American market continues to be very important for the Group and we expect further good growth in that region for many years to come.

Investing in our infrastructure

A key development in the year was the expansion of our US facility, which opened in March and is now fully operational, with increased capacity coming on stream in early 2020 - ready for the new crop season. The $15m investment has doubled our capacity in our non-citrus natural tea, health & wellness and fruit & vegetables categories, and quadrupled the size of our US technical and innovation centre as we invest further in R&D and innovation.

Work on our new UK site is underway, and we look forward to relocating in late 2020. In addition to significantly increasing our capacity, the new site will allow us to accelerate the important partnership-based model through an enhanced technical collaboration infrastructure to drive innovation, together with our customers, in line with our strategy. We believe that multiple operational efficiencies, achievable through improved site logistics, automated warehousing and computer-controlled stills, will enable the business to flourish and gives us confidence to deliver an enhanced return of profitability some 10% to 15% higher than operating from our current UK site, 3 years after completion. In addition, the modular design will enable us to add further capacity in the future as demand dictates.

Addressing market challenges

The very sharp fall in the cold pressed orange oil market was driven by substantially larger crops in Brazil and other citrus growing regions. The impact on pricing was exacerbated by weaker demand for some of the industrial by-products that are derived from orange oil, following reformulations in the wake of high prices experienced in previous years. Supply factors also impacted lemon oil pricing, with better crops across key global growing regions. The citrus team at Treatt did an excellent job applying their experience to mitigate some of the acute price falls, making some very astute judgements.

Our strategic shift over time to a more diversified range of value-added products that are less closely related to external market movements has also been a significant mitigating factor. It is only a few years ago, under my early tenure as CEO, that a close correlation existed between our business performance and that of key citrus markets. We now feel that we have successfully decoupled our financial performance from external movements in the key raw materials markets and have obtained a greater control of our business as a result of this diversification of our portfolio. Although we have started our new financial year with much lower unit prices in citrus, we expect and look forward to calmer waters ahead with at least a good majority of market falls behind us.

Capitalising on market opportunities

The pace of new product development across beverage categories and geographical markets shows no sign of slowing as consumer tastes evolve and brands seek to differentiate themselves. Relative to five years ago, the beverage aisle in a typical supermarket has seen a proliferation of choice in both alcoholic and non-alcoholic drinks, with segments such as energy drinks and functional or health & wellness beverages seeing strong growth. The "better-for-you"/clean-label/natural trend is accelerating as consumers are looking for more premium beverage propositions with positive health connections, which plays well to Treatt's strengths around natural, authentic tasting products.

Operating responsibly for our stakeholders

I am immensely proud of our exceptional people and our open, supportive culture. A company's true culture often shines through most clearly during challenging times. For Treatt to have weathered the storm in the citrus category over this difficult period is remarkable, and testament to the energy, drive and proficiency of our fantastic team. I wish to extend my heartfelt appreciation to my colleagues for their outstanding efforts.

We have always believed in doing the right thing for all our stakeholders and the communities in which we operate, and we work hard to be active, responsible participants in our communities and to minimise our environmental impact. I was proud to have been awarded an honorary doctorate by the University of Suffolk which reflects not only our success in business but also the way our business conducts itself in the wider community.

Looking forward with confidence

Although citrus market weakness impacted last year, these challenges and our performance in our non-citrus categories served to underline our commitment to the execution of our strategic plan. The next year will see further benefits from investment in our US expansion and we look forward to completing the relocation of our UK site and the opportunities that will open up by having an appropriate physical infrastructure across the Group to showcase the best of Treatt's capabilities to our growing customer base.

Notwithstanding uncertainty in relation to factors such as the ongoing trade tensions between the US and China and the twists and turns of the UK's departure from the EU, underlying growth in our core beverage and other categories continues apace, and we see plenty of potential in both our more established markets as well as in China, where traction is notable.

The know-how of our people, our work to develop and diversify our portfolio and our additional manufacturing capacity will allow us to continue to capitalise on these favourable market dynamics and gives us grounds for optimism for the year ahead and beyond. We are recognised for our expertise in a broad range of categories and are excited about the opportunities ahead as we work with customers in ever closer partnerships at the cutting edge of innovation.

We are driving ahead with confidence and whilst it is still early in the financial year ending 30 September 2020, the Group continues to perform in line with the Board's expectations for the full year.

Daemmon Reeve

Chief Executive Officer

25 November 2019

* Excluding discontinued operations, details of which are given in note 9 of this full year results statement.

Financial review

Profit before tax and exceptional items[1] up 5.2% despite citrus and foreign exchange headwinds

Income statement[1]

Revenue and profit

Revenue for the year from continuing operations grew by 0.5% to £112.7m (2018: £112.2m) with growth continuing across the Group's main product categories other than citrus. Revenue in citrus (which represents 54% of Group sales) fell by 10% as the result of a sharp fall in orange oil prices as well as lower lemon oil prices. Across non-citrus categories, revenue grew by an encouraging 16% with tea (42% growth), health & wellness (23% growth), and fruit & vegetables (35% growth) driving performance. In other categories, whilst more than 80% of the Group's revenue comes from our natural and clean-label product ranges, there was also strong growth in our synthetic flavour chemicals range of 16% in the year. Whilst herb, spice and florals revenue fell by 5%, this category contains a large, traditional range of SKU's, many of which are traded. In constant currency terms, revenue from continuing operations fell by 1.9%, with 2.4% of the revenue growth being reflective of a weaker Pound Sterling/US Dollar exchange rate in 2019 as compared to 2018.

In terms of geographic markets, the Group's strategic focus on China delivered reported sales growth of 24% to £6.8m, being 6% of Group revenue. Sales to the Rest of the World (excluding China) grew by 8% driven by a strong performance in Japan and Singapore which together represent 8% of Group revenue. Although the Group continued to perform well in mainland Europe, the impact of lower orange oil prices was more acutely felt with revenue falling by 4%. In the Group's largest market, representing more than 38% of Group revenue, revenue in the US grew by a modest 3% with citrus dampening down an otherwise good year for the US market. In the UK revenues contain a disproportionate volume (compared with other markets) of traded citrus by-products, which therefore resulted in a notable, price-led, fall in revenue of 15%.

Gross profit grew by 3.2% with gross profit margins increasing from 24.7% to 25.4%. This increase in margins resulted from the combined effect of strong growth in higher margin product categories such as tea, health & wellness and fruit & vegetables. The overall increase in gross profits should be seen in the context of the impact of lower citrus prices which resulted in gross profits from the citrus category falling by £1.8m. This supports the business strategy of diversifying the Group's product portfolio such that the business can successfully manage its way through a period of volatility in one of its key markets. In terms of new business wins, we continue to grow margins with new clients through our collaborative, science-led approach.

Administrative expenses grew by 9.7% in the year to £15.2m (2018: £13.8m), although on a constant currency basis the increase was lower at 7.5%. Of the £1.4m increase in administrative expenses, £0.6m related to the net adverse movement in foreign exchange gains and losses compared to the prior year, and £0.6m was driven by higher employment costs, impacted by increased headcount numbers across the Group – up by 9% globally. The Group continues to focus its recruitment on highly skilled scientists and on growing the sales force in order to support growth in the business.

Net operating margin[2] was down slightly in the year at 12.0% (2018: 12.4%). This compares to 10.1% five years ago. Consequently, operating profit decreased by 3.2% to £13.5m (2018: £13.9m).

Return on capital employed[3] increased to 19.0% (2018: 18.5%) as a consequence of the cash generated in the year reducing the amount of capital employed.

As plans continued to progress towards the relocation of the Group's UK Headquarters to a new ten-acre site in Bury St. Edmunds, an accelerated depreciation charge of £0.2m (2018: £0.2m) was applied to those assets at the current site which will no longer generate value for the business. In addition, costs relating to the relocation were incurred during the year totalling £0.6m (2018: £0.9m). These included legal fees, planning consultants, architects and manufacturing plant and machinery specialists. Together these expenses total £0.8m (2018: £1.1m) and are included in exceptional items (see note 7).

Profit before tax and exceptional items from continuing operations rose by 5.2% to £13.3m (2018: £12.6m). Earnings before interest, tax, depreciation and amortisation (EBITDA[4]) for the year increased by 2.0% to £14.9m (2018: £14.6m).

Foreign exchange gains and losses

Whilst the Group's functional currency is the British Pound ('Sterling'), the amount of business which is transacted in other currencies creates foreign exchange exposure, particularly the US Dollar and, to a more limited extent, the Euro. During the year the US Dollar gradually strengthened against Sterling, ending the year 5% stronger at £1=$1.23 (2018: £1=$1.30). As explained further under 'Financial Risk Management' set out below, the Group hedges its foreign exchange risk in our UK business by holding and managing US Dollar borrowings and taking out forward currency contracts and options. This can result in timing differences in the short-term, giving rise to re-translation gains or losses in the income statement. This has resulted in a loss on foreign exchange contracts and re-translation losses in aggregate of £0.8m (2018: £1.1m loss). There were no ineffective hedges in the year (2018: £0.7m loss).

There was a substantial currency impact, a gain of £2.1m (2018: £0.9m gain), 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 fell by 65% to £0.2m (2018: £0.6m) as the Group remained cash positive in the year. Although in a cash positive position, there are a number of fixed costs for maintaining facilities for future use including facility fees and non-utilisation fees which are funded from operating cash flows. Following the decrease in net finance costs, interest cover for the year before exceptional items and discontinued operations increased to 67.8 times (2018: 24.6 times).

Group tax charge

The current tax charge of £1.5m (2018: £2.9m) represents an effective rate (based on profit before tax and exceptional items) of 11.9% (2018: 24.3%). After providing for deferred tax, the overall tax charge increased by £0.4m to £2.7m (2018: £2.3m), an overall effective tax rate (after exceptional items) of 21.3% (2018: 19.8%). The Group now benefits from a US corporation tax rate of 21%, having reduced from 24.5% in the prior year, and from 35% in the year before that. This means that the main rates of corporation tax which effect the Group are now broadly similar in both the UK and the US, with the UK rate currently at 19%. The full year effect of the US rate (in the prior year the hybrid US rate was 24.25%) had the effect of reducing the current year tax charge on US profits. In addition, the US equivalent of first year allowances ('bonus depreciation') meant that a significant proportion of the US capex was 100% tax deductible, albeit with a commensurate increase in the deferred tax charge. In the prior year there was a one-off deferred tax gain on US deferred tax liabilities of £0.3m. There were no significant adjustments required to the previous year's tax estimates. Legislation has been enacted to reduce UK corporation tax rate to 17% in 2020, which would further reduce the Group's overall effective rate of tax over the course of the next two years assuming the profit mix between tax jurisdictions remains broadly unchanged.

Discontinued activities

Following the disposal of Earthoil Plantations Limited, the former Earthoil businesses based in Kenya are considered to be a disposal group in accordance with IFRS 5, "Non-current assets held for sale and discontinued activities". The net assets of the Kenyan businesses have been impaired by £0.8m to £0.7m which management consider to be their fair value. The Kenyan businesses made a trading loss for the year of £0.2m.

Earnings per share

Adjusted basic earnings per share (excluding exceptional items and discontinued operations, as set out in note 10) for the year decreased by 1.1% to 17.82p (2018: 18.02p). This small reduction in earnings per share resulted from a 1.5% increase in the overall effective tax rate and the full year effect of the 10% placing and LTIP exercises in the prior year. The calculation of earnings per share excludes those shares which are held by the Treatt Employee Benefit Trust (EBT) and Treatt SIP Trust (SIP) which are not beneficially owned by employees since they do not rank for dividend, and is based upon adjusted profit after tax.

Dividends

The proposed final dividend of 3.80p per share (2018: 3.50p) increases the total dividend per share for the year by 7.8% to 5.50p, representing dividend cover of 3.2 times continuing pre-exceptional earnings for the year and a rolling three-year cover after exceptional items of 3.1 times. The Board's long-term policy is to maintain dividend cover on a consistent basis at between 2.0 and 2.5 times three-year rolling cover. However, as per last year, in light of the Group's capital investment programme, this year's dividend increase has been set with a more prudent level of dividend cover. The Board considers this to be appropriate given the equity fund raise which took place during the previous financial year and the forthcoming cash requirements of the business in order to fund the UK site relocation.

Balance sheet

Shareholders' funds grew in the year by £5.5m (2018: £35.1m, of which £20.8m related to the prior year equity fund raise) in the year to £87.1m (2018: £81.6m), with net assets per share increasing by 5% to 145p (2018: 137p). Over the last five years net assets per share have grown by 163%. The Board has chosen not to avail itself of the option under IFRS to revalue land and buildings annually and, therefore, all the Group's land and buildings are held at historical cost, net of depreciation, on the balance sheet.

Cash flow

The overall cash performance for the year showed a marked improvement in working capital as inventory and receivable levels were reduced. Consequently, the Group's total net cash position improved by £5.9m to £16.0m (2018: £10.1m), with free cash flow of £7.8m (2018: outflow of £6.0m). Excluding the impact of the expenditure on the US expansion and UK relocation, free cash flow was a very strong £16.3m for the year.

There was an overall working capital inflow in the year of £5.6m (2018: outflow £12.7m) which was driven by an improvement in receivables and a reduction in inventory levels. The improved position in respect of receivables, resulting in a cash inflow of £5.3m, has come in part as a consequence of the Group availing itself of a number of non-recourse supplier financing programmes, where customers with strong credit ratings partner with a bank or finance provider to accelerate payments to suppliers at rates which are often below the Group's own cost of borrowing.

Inventory held at the year end was £36.8m (2018: £39.6m), a decrease of £2.8m. 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.

The level of capital expenditure in the year was £10.6m compared with £6.6m in 2018, and included £5.8m for the US expansion project which was completed successfully during the year. With the UK site relocation being the main area of focus in the UK, other capital expenditure tended to be related to on-going routine renewal and maintenance.

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.

Net cash position

As explained above, the Group currently has a net cash position. This is due to the fact that the major expenditure on the new UK facility has yet to commence, with only the land (£3.8m) and some preliminaries (£3.7m excluding non-cash items) having been incurred to date. The Group, therefore, retains a mix of secured and unsecured borrowing facilities totalling £28.7m, of which £9.3m expires in one year or less. The Group's borrowing facilities are held with HSBC, Bank of America and Lloyds Banking Group with the majority of facilities now held on three to five-year terms with expiry dates staggered to fall in different years. The Group continues to enjoy positive relationships with its banks and expects all facilities to be renewed when they fall due.

US site expansion

During the year we completed the expansion of our facility in Lakeland, Florida resulting in a total footprint of 130,500 square feet compared to the previous size of 65,500 square feet. The total cost of the expansion was $15.3m, of which $3.3m relates to new plant and machinery. This project was multi-faceted, primarily resulting in a substantially larger manufacturing facility in order to double our capacity for the key product categories of tea, health & wellness (including sugar reduction) and fruit & vegetables, with space for further expansion. This increased capacity is expected to come on stream in early 2020 – ready for the new crop season. In addition, we have enhanced the customer experience as well as expanding our laboratory and office facilities which were at full capacity.

UK relocation

Work continues towards relocating our UK business from its current site in Bury St. Edmunds, UK, to a brand-new purpose-built facility nearby. The Group acquired a ten-acre green field site on the new Suffolk Park in Bury St. Edmunds in mid-2017. During the year we have secured full planning permission for our new facility and appointed the main contractors, Readie Construction Limited, who began work on site in September 2019.

As previously announced, the table below breaks down the cost estimates for the project. As well as the land and buildings infrastructure the project also involves significant investment in new and upgraded plant and machinery, including the incorporation of a number of new technologies for the UK business such as automated warehousing, clean in place and computer-controlled stills. 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. Of the £16.9m of planned plant and machinery capex at the new UK site, approximately £7m relates to projects which would have been undertaken at the current site in the last five years, had the impending site move not been on the horizon; the balance relates to new and enhanced technologies.

The overall estimated costs of the UK relocation (see below for further information as to the basis of these estimates) are as follows:

			Spend to date (£'000)		
Capital Expenditure:	**Notes**	**Budget £'000**	**To 30/9/18**	**Year to 30/9/19**	**Total spend to date**
Land		**3,823**	3,823	-	3,823
Buildings		**17,483**	198	835	1,033
Plant & machinery		**16,863**	126	1,133	1,259
Existing site disposal		**(4,965)**	-	-	-
Net capital expenditure		**33,204**	4,147	1,968	6,115
Procurement, installation & commissioning	1	**2,884**	335	305	640
Net Relocation Costs		**36,088**	4,482	2,273	6,755
Other exceptional items:					
Accelerated depreciation (non-cash)	2	**434**	217	217	434
Relocation costs	3	**2,052**	553	233	786
		2,486	770	450	1,220

Note 1: These costs relate to expenditure which does not fall to be capitalised and will be expensed as exceptional items with the remaining costs expected to be incurred in the year ending 30 September 2020.

Note 2: Accelerated depreciation relates to the reduction in the estimated useful lives of assets which will not transition to the new site and has been accounted for in the years ended 30 September 2019 and the prior year ended 30 September 2018.

Note 3: Other exceptional items include initial design costs, parallel running costs, additional staffing resources and costs associated with the physical transfer of the business to the new site. The remaining costs are expected to be incurred in the years ending 30 September 2020, 2021 and 2022.

It should be noted that in accordance with IAS 23 'Borrowing costs', and in addition to the above, the interest charges incurred on funds utilised on the relocation project prior to its completion, expected to total £0.6m, fall to be capitalised in the year ending 30 September 2020 rather than expensed.

We expect the project to be completed in late 2020, with occupation shortly thereafter, and the cash outflows for the project are expected to result in rolling net debt to EBITDA ratio peaking at less than 1x EBITDA.

Whilst the detailed costs for the project have been prepared in full quantity surveyor detail, and the design and build contract is at a fixed price, the Board recognises the risks inherent in a project of this scale. The Board has reviewed the level of contingency allowed for in the project, being 7.5%, and considered the flexibility built into the plant and machinery spend. The Board have also taken appropriate advice from risk management consultants who will monitor the project on a regular basis. These factors, combined with the funding now in place following the share placing in December 2017, give the Board confidence that the risks inherent in the UK relocation project have been mitigated as far as practicable.

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 £600 (2018: £575) of 'Free Shares' during the year as part of the Group's employee incentive and engagement programme as the Board is firmly of the view that increased employee share ownership is an important tool for driving positive employee engagement in the business. A similar scheme exists for US staff who were awarded $900 (2018: $875) of Restricted Stock Units during the year. These shares are forfeited by employees who leave within three years from the date of grant.

Under the SIP, UK employees could also purchase up to £1,800 (or 10% of salary, whichever is lower) of Treatt shares out of gross income at no cost to the company which the company matched on a one and a half for one basis. In the year a total of 33,000 (2018: 48,000) matching shares were granted.

During the year, nil (2018: 230,000) shares were issued to the SIP at par (2 pence per share). The SIP currently holds 507,000 shares (2018: 540,000), of which 138,000 (2018: 215,000) are beneficially owned by the company and are available for future awards. It is anticipated that going forward the obligations under the SIP will be satisfied through the issue of new shares.

In addition, the Group continued its annual programme of offering share option saving schemes to staff in the UK and US. Under US tax legislation, staff at Treatt USA are able to exercise options annually, whilst the UK schemes provide for three-year saving plans.

Under the Long Term Incentive Plans which were approved by shareholders at the 2014 and 2019 Annual General Meetings, Executive Directors and certain key employees were granted 251,000 (2018: 205,000) 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 401,000 (2018: 341,000) shares during the year, whilst 760,000 (2018: 873,000) were exercised from options awarded in prior years which have now vested.

During the year, 700,000 (2018: 1,070,000) shares were issued to the Employee Benefit Trust (EBT) at par (2 pence per share). The EBT currently holds 454,000 shares (2018: 542,000) in order to satisfy future option schemes. It is anticipated that going forward, all-employee savings-related share schemes will continue to be satisfied by shares held within the EBT, to which further shares will be issued as necessary.

Final salary pension scheme

The R C Treatt final salary pension scheme (the "scheme") has not been subject to any further accruals since 31 December 2012 and instead members of the final salary pension scheme were offered membership of the UK defined contribution pension plan with effect from 1 January 2013. This means that the defined benefit scheme has been de-risked as far as it is practicable and reasonable to do so.

The last three-year actuarial review of the scheme was carried out as at 1 January 2018, the result of which was that the scheme had an actuarial surplus of £473,000 (1 January 2015: £314,000). This represented a funding level of 102%. Consequently, the Group has been able to agree with the trustees that with effect from 1 October 2018 it would continue not to make any further contributions to the scheme. It was further agreed that if the annual actuarial funding updates, before the next full actuarial review in 2021, reveal that the funding level has fallen to 95% or less of the scheme liabilities, then the company would voluntarily resume contributions.

As required by The Pension Regulator, the actuarial review was updated on a consistent basis as at 30 September 2019 which showed a deficit of £2.5m (2018: surplus of £0.7m), being a funding level of 90% (2018: 103%). This has arisen due to a reduction in the assumed level of future investment returns. Consequently contributions of £0.3m per annum will be resumed.

Similarly the IAS 19, "Employee Benefits" pension liability in the balance sheet, net of deferred tax, increased in the year from £2.9m to £6.5m. The increase in the deficit was also largely the result of a significant fall in the discount rate used to measure the liabilities of the scheme.

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 a proportion of these balances are held in foreign currencies, but only as part of the Group's overall hedging activity as explained herein.

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 (the Group's main overseas subsidiary) can fluctuate with Sterling.

Secondly, with R C Treatt (the Group's main UK subsidiary) exporting throughout the world, fluctuations in Sterling's value can affect both the gross margin and operating costs. Sales are principally made in two currencies in addition to Sterling, with the US Dollar being the most significant. Even if a sale is made in Sterling, its price may be set by reference to its US Dollar denominated raw material price and therefore has an impact on the Sterling gross margin. Raw materials are also mainly purchased in US Dollars and therefore US Dollar bank accounts are operated, through which US Dollar denominated sales and purchases flow. Hence it is Sterling's relative strength against the US Dollar that is of prime importance. As well as affecting the cash value of sales, US Dollar exchange movements can also have a significant effect on the replacement cost of stocks, which affects future profitability and competitiveness.

When the Group is in a net debt position, the Group has a policy of maintaining the majority of cash balances, including the main Group overdraft facilities, in US Dollars and, to a lesser extent in Euros, as this is the most cost-effective means of providing a natural hedge against movements in exchange rates. Where it is more cost effective to do so, the Group will enter into forward currency contracts and options as well. Consequently, during the year forward currency contracts have been entered into which hedge part of R C Treatt's foreign exchange risk. These contracts (and options if applicable) 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. Under the technical provisions of IFRS, if any options or forward contracts are deemed to be ineffective hedges then the related foreign exchange gain or loss is included within 'other gains and losses' in the income statement. The foreign exchange gains or losses charged to 'other gains and losses' in the year was £nil (2018: £0.7m loss). 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 fluctuations in currencies.

Summary

The financial results of the year have continued the unbroken trend of continuing growth in profit before tax and exceptional items since we remodelled the business in 2012. What is of particular note is that in spite of a material reduction in profits from our citrus category (down by £1.8m) and the impact of foreign exchange (a loss of £0.8m), the business has successfully grown its revenue and profits, underpinned by the very encouraging 16% growth in our non-citrus categories.

We have continued to invest in people as combined employee numbers for the UK and US have grown by 9% to an average of 312 full time equivalent employees for the year. Having delivered on our US expansion we have now started to build our new UK facility which we expect to open in late 2020. This on-going investment in our resources and infrastructure is testament to the ambitions we have to grow our business in a sustainable way for the long term.

Richard Hope

Chief Financial Officer

25 November 2019

[1] Unless indicated otherwise, all measures are based on continuing operations.
[2] Operating profit divided by revenue from continuing operations both of which are shown in the Group income statement.
[3] Operating profit, net of 'other gains and losses, from continuing operations (as shown in the Group income statement) divided by the capital employed in the business which we calculate as total equity (as shown in the Group balance sheet) plus net debt or minus net cash (as shown in the Group reconciliation of net cash flow to movement in net cash).
[4] EBITDA is the profit before interest, tax, depreciation and amortisation. This is calculated as operating profit (as shown in the Group income statement) plus depreciation and amortisation from continuing operations.

Group Income Statement

for the year ended 30 September 2019

	Notes	2019 £'000	2018 £'000
CONTINUING OPERATIONS			
Revenue	6	**112,717**	112,163
Cost of sales		**(84,060)**	(84,407)
Gross profit		**28,657**	27,756
Administrative expenses		**(15,158)**	(13,812)
Operating profit [1]		**13,499**	13,944
Other losses		**–**	(734)
Finance income		**141**	36
Finance costs		**(340)**	(604)
Profit before taxation and exceptional items		**13,300**	12,642
Exceptional items	7	**(755)**	(1,105)
Profit before taxation		**12,545**	11,537
Taxation	8	**(2,673)**	(2,284)
Profit for the year from continuing operations		**9,872**	9,253
DISCONTINUED OPERATIONS			
(Loss)/profit for the year from discontinued operations	9	**(1,084)**	2,976
Profit for the year attributable to owners of the Parent Company		**8,788**	12,229
Earnings per share			
From continuing and discontinued operations:			
Basic	11	**14.86p**	21.55p
Diluted	11	**14.66p**	20.99p
Adjusted basic[2,3]	11	**17.38p**	19.07p
Adjusted diluted[2,3]	11	**17.15p**	18.58p
From continuing operations:			
Basic	11	**16.69p**	16.30p
Diluted	11	**16.47p**	15.88p
Adjusted basic[2]	11	**17.82p**	18.02p
Adjusted diluted[2]	11	**17.58p**	17.56p

1 Operating profit is calculated as profit before other losses, net finance costs, exceptional items and taxation.

2 All adjusted measures exclude exceptional items, and in the case of earnings per share the related tax effect, details of which are given in note 7.

3 Excludes the 2019 impairment and 2018 gain on disposal of subsidiaries as detailed in note 9.

Notes 1–12 form part of this full year results statement.

Group Statement of Comprehensive Income

for the year ended 30 September 2019

	Notes	2019 £'000	2018 £'000
Profit for the year attributable to owners of the Parent Company		**8,788**	12,229
Items that may be reclassified subsequently to profit or loss:			
Currency translation differences on foreign operations		**2,123**	912
Current tax on foreign currency translation differences	8	**(72)**	(24)
Fair value movement on cash flow hedges		**93**	(70)
Deferred tax on fair value movement	8	**(16)**	(27)
		2,128	791
Items that will not be reclassified subsequently to profit or loss:			
Actuarial (loss)/gain on defined benefit pension scheme		**(4,230)**	2,505
Deferred tax on actuarial gain or loss	8	**719**	(426)
		(3,511)	2,079
Other comprehensive (expense)/income for the year		**(1,383)**	2,870
Total comprehensive income for the year attributable to owners of the Parent Company		**7,405**	15,099

Notes 1–12 form part of this full year results statement.

Group Statement of Changes in Equity

for the year ended 30 September 2019

Group	Share capital £'000	Share premium account £'000	Own shares in share trusts £'000	Hedging reserve £'000	Foreign exchange reserve £'000	Retained earnings £'000	Total equity £'000
1 October 2017	1,058	2,757	(175)	(80)	2,627	40,291	46,478
Profit for the year	–	–	–	–	–	12,229	12,229
Other comprehensive income:							
Exchange differences	–	–	–	–	912	–	912
Fair value movement on cash flow hedges	–	–	–	(70)	–	–	(70)
Actuarial gain on defined benefit pension scheme	–	–	–	–	–	2,505	2,505
Transfer between reserves	–	–	–	227	–	(227)	–
Taxation relating to items above	–	–	–	(27)	(24)	(426)	(477)
Total comprehensive income	–	–	–	130	888	14,081	15,099
Transactions with owners:							
Dividends	–	–	–	–	–	(2,876)	(2,876)
Share-based payments	–	–	–	–	–	1,049	1,049
Movement in own shares in share trusts	–	–	167	–	–	–	167
Gain on release of shares in share trusts	–	–	–	–	–	419	419
Issue of share capital	131	20,727	(26)	–	–	–	20,832
Taxation relating to items recognised directly in equity	–	–	–	–	–	457	457
Total transactions with owners	131	20,727	141	–	–	(951)	20,048
1 October 2018	1,189	23,484	(34)	50	3,515	53,421	81,625
Profit for the year	–	–	–	–	–	8,788	**8,788**
Other comprehensive income:							
Exchange differences	–	–	–	–	2,123	–	**2,123**
Fair value movement on cash flow hedges	–	–	–	93	–	–	**93**
Actuarial loss on defined benefit pension scheme	–	–	–	–	–	(4,230)	**(4,230)**
Taxation relating to items above	–	–	–	(16)	(72)	719	**631**
Total comprehensive income	–	–	–	77	2,051	5,277	**7,405**
Transactions with owners:							
Dividends	–	–	–	–	–	(3,080)	**(3,080)**
Share-based payments	–	–	–	–	–	653	**653**
Movement in own shares in share trusts	–	–	33	–	–	–	**33**
Gain on release of shares in share trusts	–	–	–	–	–	506	**506**
Issue of share capital	14	–	(14)	–	–	–	**–**
Taxation relating to items recognised directly in equity	–	–	–	–	–	(35)	**(35)**
Total transactions with owners	14	–	19	–	–	(1,956)	**(1,923)**
30 September 2019	**1,203**	**23,484**	**(15)**	**127**	**5,566**	**56,742**	**87,107**

Notes 1–12 form part of this full year results statement.

Group Balance Sheet

as at 30 September 2019

Registered Number: 01568937

	2019 £'000	2018 £'000
ASSETS		
Non-current assets		
Intangible assets	**845**	752
Property, plant and equipment	**29,485**	20,038
Deferred tax assets	**1,400**	1,073
	31,730	21,863
Current assets		
Inventories	**36,799**	39,642
Trade and other receivables	**23,020**	28,829
Current tax assets	**455**	29
Cash and bank balances	**37,187**	32,304
Assets classified as held for sale	**697**	1,598
	98,158	102,402
Total assets	**129,888**	124,265
LIABILITIES		
Current liabilities		
Borrowings	**(16,860)**	(19,244)
Provisions	**(261)**	(58)
Trade and other payables	**(11,331)**	(15,298)
Current tax liabilities	**(124)**	(760)
Derivative financial instruments	**(315)**	(401)
Liabilities classified as held for sale	**(14)**	(20)
	(28,905)	(35,781)
Net current assets	**69,253**	66,621
Non-current liabilities		
Borrowings	**(4,369)**	(3,001)
Post-employment benefits	**(7,788)**	(3,457)
Deferred tax liabilities	**(1,719)**	(401)
	(13,876)	(6,859)
Total liabilities	**(42,781)**	(42,640)
Net assets	**87,107**	81,625

Group Balance Sheet (continued)

	2019 £'000	2018 £'000
EQUITY		
Share capital	**1,203**	1,189
Share premium account	**23,484**	23,484
Own shares in share trusts	**(15)**	(34)
Hedging reserve	**127**	50
Foreign exchange reserve	**5,566**	3,515
Retained earnings	**56,742**	53,421
Total equity attributable to owners of the Parent Company	**87,107**	81,625

Notes 1–12 form part of this full year results statement.

Group Statement of Cash Flows

for the year ended 30 September 2019

	Notes	2019 £'000	2018 £'000
Cash flow from operating activities			
Profit before taxation including discontinued activities		**11,477**	14,555
Adjusted for:			
Depreciation of property, plant and equipment		**1,559**	1,519
Amortisation of intangible assets		**90**	124
Profit on disposal of intangible assets		**–**	(2)
Impairment of discontinued operations	9	**825**	–
Gain on disposal of subsidiary	9	**–**	(2,382)
Net finance costs		**199**	610
Share-based payments		**637**	1,040
Increase in fair value of derivatives		**7**	638
Increase in post-employment benefit obligations		**101**	141
Operating cash flow before movements in working capital		**14,895**	16,243
Movements in working capital:			
Decrease/(increase) in inventories		**3,970**	(1,174)
Decrease/(increase) in receivables		**5,293**	(9,906)
Decrease in payables		**(3,614)**	(1,582)
Cash generated from operations		**20,544**	3,581
Taxation paid		**(2,208)**	(2,978)
Net cash from operating activities		**18,336**	603
Cash flow from investing activities			
Disposal of subsidiaries	9	**1,033**	8,746
Purchase of property, plant and equipment		**(10,392)**	(6,190)
Purchase of intangible assets		**(178)**	(389)
Interest received		**141**	36
		(9,396)	2,203

Group Statement of Cash Flows (continued)

	Notes	2019 £'000	2018 £'000
Cash flow from financing activities			
Increase/(repayment) in bank loans		1,874	(7,594)
Settlement of financial derivatives		–	(227)
Interest paid		(340)	(646)
Dividends paid		(3,080)	(2,876)
Proceeds on issue of shares	12	14	20,833
Net sale of own shares by share trusts		526	586
		(1,006)	10,076
Net increase in cash and cash equivalents		7,934	12,882
Effect of foreign exchange rates		82	(102)
Movement in cash and cash equivalents in the year		8,016	12,780
Cash and cash equivalents at beginning of year		13,060	280
Cash and cash equivalents at end of year		21,076	13,060
Cash and cash equivalents comprise:			
Cash and bank balances		37,187	32,304
Bank borrowings		(16,111)	(19,244)
		21,076	13,060

Notes 1–12 form part of this full year results statement.

Group Reconciliation of Net Cash Flow to Movement in Net Cash

for the year ended 30 September 2019

	2019 £'000	2018 £'000
Movement in cash and cash equivalents in the year	**8,016**	12,780
(Increase)/repayment in bank loans	**(1,874)**	7,594
Cash inflow from changes in net cash in the year	**6,142**	20,374
Effect of foreign exchange rates	**(243)**	(90)
Movement in net cash in the year	**5,899**	20,284
Net cash/(debt) at beginning of year	**10,059**	(10,225)
Net cash at end of year	**15,958**	10,059

Analysis of movements in net cash during the year:

	At 1 October 2018 £'000	Cash flow £'000	Exchange and other non-cash movements £'000	At 30 September 2019 £'000
Cash and bank balances	32,304	4,801	82	**37,187**
Bank borrowings	(19,244)	3,133	–	**(16,111)**
Cash and cash equivalents	13,060	7,934	82	**21,076**
Bank loans and overdrafts	(3,001)	(1,874)	(243)	**(5,118)**
Net cash at end of year	10,059	6,060	(161)	**15,958**

Notes 1–12 form part of this full year results statement.

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 2019 and 2018 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 2018 have been delivered to the Registrar of Companies. The statutory accounts for the year ended 30 September 2019 have been audited and approved but have not yet been filed.

The Group's audited financial statements for the year ended 30 September 2019 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 full year results statement was approved and authorised for issue by the Board on 25 November 2019.

2. ACCOUNTING POLICIES

The Group has adopted IFRS 9 "Financial Instruments" and IFRS 15 "Revenue from Contracts with Customers" with effect from 1 October 2018. These standards are mandatory for financial periods beginning on or after 1 January 2018 and, therefore, relevant to the Group for the first time for the financial year ended 30 September 2019. The adoption of these amended accounting standards has not had a material effect on this full year results statement. Details of the changes in accounting policies are as follows:

IFRS 15 Revenue from Contracts with Customers

IFRS 15 establishes a single comprehensive model for revenue recognition based on the transfer of control rather than the risks and rewards of ownership. The Group is required to adopt IFRS 15 for its year ended 30 September 2019, with a date of initial application of 1 October 2018.

The core principle of IFRS 15 is that an entity should recognise revenue when (or as) a performance obligation is satisfied, i.e. when control of the goods or services underlying a particular performance obligation is transferred to the customer.

Management have considered the nature of contracts and performance obligations with customers at the date of initial application and determined that the Group has only a single revenue stream for the purposes of the application of IFRS 15, which is the sale of goods at a point in time.

The adoption of IFRS 15 has had no impact on this full year results statement; the primary statements and performance metrics reported under IFRS 15 remain consistent with reporting under previous accounting standards.

IFRS 9 Financial Instruments

IFRS 9 introduces new requirements for (1) the classification and measurement of financial assets and financial liabilities, (2) impairment of financial assets, and (3) general hedge accounting. The Group has adopted IFRS 9 with a date of initial application of 1 October 2018.

(1) Classification and measurement

(i) financial assets

All recognised financial assets that are within the scope of IFRS 9 are required to be subsequently measured at amortised cost or fair value on the basis of the entity's business model for managing the financial assets and the contractual cashflow characteristics of the financial assets. Accounting for the Group's financial assets is unchanged from the prior year and changes are in disclosure only.

(ii) financial liabilities

IFRS 9 requires the portion of the change in fair value of a financial liability that relates to the entity's own credit risk, to be presented in other comprehensive income. Accounting for the Group's financial liabilities is unchanged with respect to previous requirements under IAS 39, "Financial Instruments: recognition and measurement".

(2) Impairment of financial assets

IFRS 9 requires an expected credit loss model as opposed to an incurred credit loss model under IAS 39. Under IFRS 9 the Group will assess recoverability on a forward-looking basis. Given the low level of historic debts experienced by the Group, the application of IFRS 9 has not had a material impact on this full year results statement.

(3) General hedge accounting

Greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging and aligning the effectiveness of a hedge more closely to an entity's risk management activities and strategy. The application of the new hedge accounting requirements has no impact on this full year results statement.

With the exception of amendments to IFRS 9 and IFRS 15, this full year results statement has been prepared in accordance with the accounting policies set out in the full financial statements for the year ended 30 September 2018.

3. ACCOUNTING ESTIMATES

The preparation of this statement requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, 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 Group financial statements as at, and for the year ended 30 September 2018, other than in respect of IFRS 15 as follows:

Revenue recognition

On adoption of IFRS 15, the Group has considered how it recognises the sale of goods to customers and in particular has exercised judgement in determining the point at which control is transferred to the customer. The key performance obligation of the consolidated entity is considered to be satisfied at the point in time that the goods are either collected by or despatched to the customer. At this point the goods are derecognised by the consolidated entity and are no longer available for sale, therefore management deem that control of the goods has transferred to the customer and there is a present right to receive payment for the goods.

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 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 26 to 31 of the 2018 Annual Report and Financial Statements.

6. SEGMENTAL INFORMATION

Business segments

IFRS 8, "Operating segments" 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 the profit performance from the Group's operations.

The Group operates one global business segment engaging in the manufacture and supply of innovative ingredient solutions for the flavour, fragrance, beverage and consumer product industries with manufacturing sites in the UK, US and Kenya. Many of the Group's activities, including sales, manufacturing, technical, IT and finance are managed globally on a Group basis.

Geographical segments

The following table provides an analysis of the Group's revenue by geographical market:

Revenue by destination		2019 £'000 Continuing	2019 £'000 Discontinued	2019 £'000 Total	2018 £'000 Continuing	2018 £'000 Discontinued	2018 £'000 Total
United Kingdom		7,920	1,496	9,416	9,363	2,051	11,414
Rest of Europe	– Germany	6,142	–	6,142	6,687	719	7,406
	– Ireland	7,434	–	7,434	8,310	–	8,310
	– Other	12,846	–	12,846	12,661	1,920	14,581
The Americas	– USA	43,689	–	43,689	42,597	1,030	43,627
	– Other	7,787	–	7,787	8,407	3	8,410
Rest of the World	– China	6,766	–	6,766	5,441	1	5,442
	– Other	20,133	81	20,214	18,697	409	19,106
		112,717	1,577	114,294	112,163	6,133	118,296

All Group revenue is in respect of the sale of goods, other than property rental income of £23,000 (2018: £27,000). No country included within "Other" contributes more than 5% of the Group's total revenue. The largest customer represented 9.8% of Group revenue (2018: 10.7%).

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

Continuing operations	2019 £'000	2018 £'000
United Kingdom	10,412	8,652
United States	19,918	12,138
	30,330	20,790

7. EXCEPTIONAL ITEMS

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

	2019 £'000	2018 £'000
Accelerated depreciation and amortisation	**217**	217
UK relocation expenses	**538**	888
	755	1,105
Less: tax effect of exceptional items	**(91)**	(130)
	664	975

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

8. TAXATION

Analysis of tax charge in income statement:

	2019 £'000 Continuing	2019 £'000 Discontinued	2019 £'000 Total	2018 £'000 Continuing	2018 £'000 Discontinued	2018 £'000 Total
Current tax:						
UK corporation tax on profits for the year	**685**	**–**	**685**	676	58	734
Adjustments to UK tax in respect of previous periods	**(298)**	**–**	**(298)**	(33)	–	(33)
Overseas corporation tax on profits for the year	**1,166**	**–**	**1,166**	2,301	–	2,301
Adjustments to overseas tax in respect of previous periods	**(59)**	**–**	**(59)**	(3)	–	(3)
Total current tax	**1,494**	**–**	**1,494**	2,941	58	2,999
Deferred tax:						
Origination and reversal of temporary differences	**1,198**	**16**	**1,214**	(325)	(15)	(340)
Effect of reduced tax rate on opening assets and liabilities	**(14)**	**–**	**(14)**	(331)	–	(331)
Adjustments in respect of previous periods	**(5)**	**–**	**(5)**	(1)	(1)	(2)
Total deferred tax	**1,179**	**16**	**1,195**	(657)	(16)	(673)
Tax on profit on ordinary activities	**2,673**	**16**	**2,689**	2,284	42	2,326

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

	2019 £'000	2018 £'000
Current tax:		
Foreign currency translation differences	72	24
Deferred tax:		
Cash flow hedges	16	27
Defined benefit pension scheme	(719)	426
Total deferred tax	(703)	453
Total tax (credit)/charge recognised in other comprehensive income	(631)	477

Analysis of tax charge/(credit) in equity:

	2019 £'000	2018 £'000
Current tax:		
Share-based payments	(418)	(576)
Deferred tax:		
Share-based payments	453	119
Total tax charge/(credit) recognised in equity	35	(457)

Factors affecting tax charge for the year:

The tax assessed for the year is different from that calculated at the standard rate of corporation tax in the UK of 19.0% (2018: 19.0%). The differences are explained below:

	2019 £'000 Continuing	2019 £'000 Discontinued	2019 £'000 Total	2018 £'000 Continuing	2018 £'000 Discontinued	2018 £'000 Total
Profit before tax multiplied by standard rate of UK corporation tax at 19% (2018: 19%)	**2,384**	**(203)**	**2,181**	2,192	573	2,765
Effects of:						
Expenses not deductible in determining taxable profit and other items	**359**	**(6)**	**353**	127	(170)	(43)
Research and development tax credits	**(47)**	**–**	**(47)**	(44)	–	(44)
Difference in tax rates on overseas earnings	**354**	**68**	**422**	377	93	470
Adjustments to tax charge in respect of prior years	**(362)**	**–**	**(362)**	(37)	(1)	(38)
Effect of reduced rate on opening deferred tax	**(15)**	**–**	**(15)**	(331)	–	(331)
Gain on disposal of subsidiary not taxable	**–**	**–**	**–**	–	(453)	(453)
Impairment of discontinued operations not tax allowable	**–**	**157**	**157**	–	–	–
Total tax charge for the year	**2,673**	**16**	**2,689**	2,284	42	2,326

The Group's effective UK corporation tax rate for the year was 19.0% (2018: 19.0%). The effective tax rate of US-based earnings is 23.0% (2018: 24.25%). The adjustments in respect of prior years relate to the finalisation of previous year's tax computations.

9. DISCONTINUED OPERATIONS

On 31 May 2018 the Group completed the disposal of Earthoil Plantations Limited. Following this disposal the Group retained the former Earthoil operations based in Kenya, which have since become loss-making. These operations are not considered core to the Group's existing business and future growth strategy and consequently have been classified as a disposal group held for sale.

Management has assessed the carrying value of the disposal group's assets and liabilities against the fair value less costs of disposal and recognised an impairment of £825,000 within the Income Statement. This impairment is reflected in the earnings per share below and the earnings per share from continuing and discontinued operations as shown in note 11.

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

	2019 £'000	2018 £'000
Revenue	1,577	6,133
Cost of sales	(1,587)	(5,164)
Gross (loss)/profit	(10)	969
Administrative expenses	(233)	(291)
Operating (loss)/profit	(243)	678
Net finance costs	–	(42)
(Loss)/profit before taxation and exceptional items	(243)	636
Exceptional items – impairment of disposal group	(825)	–
– gain on disposal of subsidiary	–	2,382
(Loss)/profit before taxation	(1,068)	3,018
Taxation	(16)	(42)
(Loss)/profit for the period attributable to owners of the Parent Company	(1,084)	2,976

Earnings per share from discontinued operations: basic 1.83p loss (2018: 5.25p); diluted 1.81p loss (2018: 5.11p). Adjusted earnings per share (excluding exceptional items shown above) from discontinued operations: basic 0.44p loss (2018: 1.05p); diluted 0.43p loss (2018: 1.02p).

During the year, the discontinued operations contributed an outflow of £0.3m (2018: £0.7m inflow) to the Group's net operating cashflow, paid £nil (2018: £0.2m) in respect of investing activities and received £nil (2018: £2.6m) in respect of financing activities.

Deferred consideration of £1,033,000 in respect of the sale of Earthoil Plantations Limited was received in full on 12 August 2019. This is reflected in the Group Statement of Cash Flows for the current year.

10. DIVIDENDS

Equity dividends on ordinary shares:

	Dividend per share for years ended 30 September				
	2019 Pence	**2018 Pence**	**2017 Pence**	**2019 £'000**	**2018 £'000**
Interim dividend	**1.70p[3]**	1.60p[2]	1.45p[1]	**1,009**	936
Final dividend	3.80p[4]	**3.50p[3]**	3.35p[2]	**2,071**	1,940
	5.50p	5.10p	4.80p	**3,080**	2,876

1 Accounted for in the year ended 30 September 2017.

2 Accounted for in the year ended 30 September 2018.

3 Accounted for in the year ended 30 September 2019.

4 The proposed final dividend for the year ended 30 September 2019 of 3.80 pence will be voted on at the Annual General Meeting on 31 January 2020 and will therefore be accounted for in the financial statements for the year ending 30 September 2020.

11. 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 Trust"), which do not rank for dividend.

	2019	2018
Profit after taxation attributable to owners of the Parent Company (£'000)	8,788	12,229
Loss/(profit) from discontinued operations (£'000)	1,084	(2,976)
Profit from continuing operations attributable to owners of the Parent Company (£'000)	9,872	9,253
Weighted average number of ordinary shares in issue (No: '000)	59,140	56,758
Basic earnings per share – continuing and discontinued (pence)	14.86p	21.55p
Basic earnings per share – continuing (pence)	16.69p	16.30p

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:

	2019 No ('000)	2018 No ('000)
Weighted average number of shares	59,681	57,423
Weighted average number of shares held in the EBT and SIP Trust	(541)	(665)
Weighted average number of shares used for calculating basic EPS	59,140	56,758
Executive share option schemes	639	1,201
All-employee share options	152	301
Weighted average number of shares used for calculating diluted EPS	59,931	58,260
Diluted earnings per share – continuing and discontinued (pence)	14.66p	20.99p
Diluted earnings per share – continuing (pence)	16.47p	15.88p

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:

	2019 £'000	2018 £'000
Profit after taxation attributable to owners of the Parent Company	**8,788**	12,229
Adjusted for:		
Exceptional items (see note 7)	**755**	1,105
Taxation thereon	**(91)**	(130)
Impairment of discontinued operations (see note 9)	**825**	–
Less gain on disposal of subsidiary (see note 9)	**–**	(2,382)
Earnings for calculating adjusted earnings per share:		
From continuing and discontinued operations	**10,277**	10,822
Less: loss/(profit) from discontinued operations	**259**	(594)
Adjusted earnings from continuing operations	**10,536**	10,228
Adjusted basic earnings per share (pence)		
– Continuing and discontinued operations	**17.38p**	19.07p
– Continuing operations	**17.82p**	18.02p
Adjusted diluted earnings per share (pence)		
– Continuing and discontinued operations	**17.15p**	18.58p
– Continuing operations	**17.58p**	17.56p

12. SHARE CAPITAL

Called up, allotted and fully paid	2019 £'000	2019 Number	2018 £'000	2018 Number
At start of year	**1,189**	**59,470,670**	1,058	52,905,170
Issued in year	**14**	**700,000**	131	6,565,500
At end of year	**1,203**	**60,170,670**	1,189	59,470,670

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

During the year the Parent Company issued nil (2018: 230,000) ordinary shares to the Treatt SIP Trust for the purpose of meeting its obligations under an HMRC-approved share incentive plan in the UK as well as 700,000 (2018: 1,070,000) ordinary shares to the Employee Benefit Trust for the purpose of meeting obligations under employee share option schemes.