TREATT PLC
PRELIMINARY STATEMENT
FOR THE YEAR ENDED 30 SEPTEMBER 2006

Treatt PLC, the manufacturer and supplier of flavour and fragrance ingredients, primarily natural essential oils and natural extracts, announces today its preliminary results for the year ended 30 September 2006.

Summary

Group revenue increased by 8.9% to £35.4 million (2005: £32.5 million)

Despite the absence of last year's substantial one-off stock profits:

  Profit before tax only down 3.5% to £3.3 million (2005: £3.4* million)

  EBITDA only down 3.3% to £4.4m (2005: £4.5*m)

Dividends increased 10.5% to 10.5p per share (2005: 9.5p)

Earnings per share unchanged 23.3p (2005: 23.3*p)

* Restated in accordance with International Financial Reporting Standards.

Edward Dawnay, Chairman commented:

"The Group had a good underlying performance with sales increasing by 9% to £35.4m. R.C. Treatt, the Group's UK operating company continued to perform well and has gained significant benefits from the implementation and development of the Group's Enterprise Resource Planning (ERP) system, with sales of aromatic chemicals having risen by 15%. Treatt USA experienced a difficult year but also saw some sales growth. The outlook for 2007 is one of continuing revenue growth but we expect margins to remain under pressure."

Enquiries:

Treatt plc	Tel: 01284 702500
Hugo Bovill	Managing Director
Richard Hope	Finance Director (Mobile on 11 December 2006: 07881 508437)

CHAIRMAN'S STATEMENT

"The Group had a good underlying performance with sales increasing by 9% to £35.4m"

2006 saw Group revenue for the year rise by 8.9% to £35.41m (2005: £32.52m). Group earnings before interest, tax, depreciation and amortisation decreased by 3.3% to £4.36m (2005 restated*: £4.51m) with profit before tax for the year reducing by 3.5% to £3.29m (2005 restated: £3.41m). Earnings per share remained unchanged at 23.3 pence (2005 restated: 23.3 pence). The level of the Group's net debt/equity ratio ended the year at 26% (2005 restated: 12%).

The Board is recommending a final dividend of 7.1 pence (2005: 6.4 pence), increasing the total dividend for the year by 10.5% to 10.5 pence (2005: 9.5 pence) per share. The final dividend will be payable on 9 March 2007 to all shareholders on the register at close of business on 2 February 2007.

The underlying performance of the Group as a whole was good because, despite the absence of last year's substantial one-off stock gains on orange and grapefruit oil products, Group profit before tax has only reduced by £0.12m. In other words, what was a short term profit in 2005 has become underlying long term profitability in 2006.

The highlight of the year has been the continued strong performance of R.C. Treatt, the Group's UK operating subsidiary. Turnover has increased by 10% to £27.5m, with profits also increasing by 9%, again despite the absence of last year's one-off stock gains. Over the last two years, R.C. Treatt's profit before tax has increased by 64%. This growth has been broadly spread, but the profits from sales of aroma and speciality chemicals has been particularly strong, underpinned by a higher petroleum price and generally increasing prices for most commodity raw materials. However, most of the growth in sales and profit from aromatic chemicals has arisen from an increase in the volume of orders received, resulting in sales growth of 15%. This activity has particularly prospered on the back of the Enterprise Resource Planning (ERP) computer system which was installed almost three years ago. Over the course of the year, orange prices have been relatively stable and remained at around $2/kg, but margins have tightened resulting in a £0.4m reduction in orange oil profits.

Treatt USA, on the other hand, have experienced a difficult year in the absence of last year's profits from grapefruit oil. Although turnover increased by 4%, profits fell as high margin grapefruit business was replaced with much lower margin commodity sales. However, the underlying growth potential of Treatt USA remains very strong with sales of our innovative Treattarome™ ('From The Named Food') distillate products continuing to perform well. In particular we are delighted by the launch of a wide range of new Treattarome™ products including Cocoa, Raspberry, Blueberry and Strawberry.

During the year we were also pleased to announce the opening of a sales office, Treatt China, in Shanghai, where we saw sales in China & Hong Kong increase by 18% over the previous year. Treatt has traded extensively with China for many years and we believe that the creation of Treatt China will enable the Group to increase substantially its activity in the region over the coming years.

Treatt is proud that it continues to enhance its reputation as a world leader in agricultural food science and analysis, whilst continuing to be a leading independent manufacturer of natural ingredients for the flavour and fragrance industry, with a presence in Europe, the United States and China.

International Financial Reporting Standards (IFRS)
As previously announced, these results are the first set of results to be published in accordance with IFRS. Following the publication of restated results for the year ended 30 September 2005, these results confirm that IFRS have not had a material impact on the Group's Income Statement and that, as expected, the most significant impact flows from recognising a pension liability (net of deferred tax) of £2.2m (2005: £2.3m) which has been offset by a reduction in dividends payable of £1.05m (2005: £0.95m). See the Financial Review for further details.

Pension Deficit
The triennial actuarial valuation of R.C. Treatt's final salary pension scheme, which took place as at 1 January 2006, resulted in an increase in the actuarial deficit from (£2.7m) to (£3.0m). This is despite the scheme having been closed to new entrants in 2001, pensionable salaries frozen in real terms in 2003 and investment returns exceeding expectations over the period by £1.8m. As a result, the company decided to make additional one-off contributions totalling £1.5m, of which £0.5m was paid in July 2006, and a further £1m was paid after the year end in October 2006, thereby halving the deficit. For further information on this please see the Financial Review.

Prospects
Following the last few difficult years, the flavour and fragrance industry is now beginning to see a return to growth. However, the industry continues to be affected by significant mergers and acquisitions. Whilst the new financial year has got off to a disappointingly slow start, Group sales are expected to continue to increase over the coming year although, yet again, margins could tighten further. After a number of difficult years in the UK and Europe, we are now seeing positive signs of growth in the domestic and continental European markets and we believe this growth is set to continue over the coming year. As well as continuing growth in China, we are also looking forward to a continued strong performance in the Middle East.

We believe that the ERP computer system will continue to unlock further potential for improvements in service delivery, sales growth and improved margins, especially at R.C. Treatt. We are also continuing to develop our newly installed bar coding system which will further enhance the Group's capabilities. Having significantly expanded its Treattarome™ range, Treatt USA are looking forward to some sales growth in 2007 both from Treattaromes and also from its broad portfolio of citrus products, with margins remaining steady.

Generally, we are expecting essential oil prices to remain firm with orange oil continuing within a relatively narrow pricing band whilst petroleum prices remain high.

People
During the year we were deeply saddened by the death of Geoffrey Bovill who served as Chairman and as a Director of Treatt for 57 years, retiring from the Board last year. Geoffrey made a highly significant contribution to the Group and we all miss him, his experience and his wisdom very much indeed.

Last, and certainly not least, the Board would like to place on record its thanks for the tremendous efforts made by colleagues throughout the world. Without their dedication, commitment and hard work over the past twelve months, Treatt would not be as well placed as it is today to achieve further successes in the future.

EDWARD DAWNAY
Chairman
8 December 2006

* '2005 restated' means that the prior year's results have been restated in accordance with International Financial Reporting Standards.

OPERATING REVIEW 2006

"The £1.2m Enterprise Resource Planning (ERP) system continues to deliver significant operational improvements"

2006 was another year of operational improvement throughout the Treatt Group. As a result of continuing development of the ERP system, which was first installed in the UK in January 2004, R.C. Treatt has continued to go from strength to strength through continuous operational and efficiency improvements to its manufacturing and planning processes.

Similarly, the integration of Treatt USA into the main ERP system in mid 2005 has provided the Group with a global platform from which to develop and enhance operational activities.

The Group's investment in ERP of £1.2m is being depreciated over four years for hardware and seven years for software and will be fully depreciated in 2010. Ongoing enhancements to the system, such as the integration of bar coding and the creation of a sophisticated stock level management system has enabled R.C. Treatt, in particular, to be able to estimate, with a high degree of accuracy, the likely demand and order profiles for a significant proportion of the Company's products. This, in turn, enables customers to receive a quick, reliable and high quality service.

Following the acquisition last year of a further 6.5 acres of land together with 9,000 sq. ft. of warehousing and 2,500 sq. ft. of office space adjacent to our existing facilities in Lakeland, Florida, the Group now owns the freehold on 23 acres of land and property in the UK and USA. Consequently, we are extremely focussed on maximising the potential from our properties and are constantly seeking ways of improving our use of the resources available to us.

As changes in legislation and regulation are becoming more rapid and ever more complex, Treatt are committed to playing an active role in debating, lobbying and implementing change. Specifically, the new European REACH (Registration, Evaluation and Authorisation of Chemicals) legislation will have a major impact on the industry over the next few years and we have already taken early steps to ensure that we are well placed to implement the requirements of this highly complex and costly legislation as and when required. Treatt continues to play an active role in trade organisations throughout the industry, with the Group's Managing Director currently holding the position of President of the International Federation of Essential Oils and Aroma Trades (IFEAT).

Treatt continues to trade with almost one hundred countries around the world and it is, therefore, especially well placed to meet the needs of major multi national businesses that look to Treatt to address seamlessly the many complexities of importing and exporting goods to or from any corner of the world.

Trading

Group

After many years of cyclical volatility, the price of orange oil, an orange juice by-product, has been relatively stable over the last year, remaining within a narrow range of $1.80 - $2.20 per kilo. The high price of petroleum has resulted in a significantly higher 'floor' to orange oil prices regardless of crop and weather forecasts. Sales of orange oil products continue to represent 15% (2005: 15%) of Group sales and as a result of some long term fixed price contracts which were negotiated when the market price was lower, orange oil profits fell by £0.7m compared to the previous year.

R.C. Treatt

Revenue increased by 10% with sales to the top ten customers again representing just over one third of turnover. In terms of activity levels, there was a 4% increase in the number of orders. The strong global customer base of R.C. Treatt remains widely spread both in terms of size and location, thereby providing a well balanced risk profile. As expected, however, gross margins for the year fell back due to the absence of the one-off stock gains referred to in the Chairman's Statement. The Company is now well placed to focus and target its strategic growth in specific areas, of which sales of mint oil products and sales to confectionery customers are proving a particular success.

Treatt USA

2006 was a disappointing year with US Dollar sales growth of just 4%. The weaker than expected revenue, combined with a significant fall in citrus oil profits following the one-off gains the previous year, resulted in much lower profits than in 2005, although profitability does remain healthy. Treattarome™ products continue to provide exciting and innovative opportunities for growth.

Treatt China

During the year, the Board decided that the time was right to build on the Group's existing trading activities and relationships by opening a representative office in Shanghai. Sales to China (& Hong Kong) increased by 18% compared to 2005 and further double digit growth is expected year on year over the next three years.

Investment for the Future

R.C. Treatt

The level of capital expenditure in 2006 of £0.6m (2005: £0.4m) was, as expected, in line with historic levels. This included a number of value-added initiatives in the distillation area which will increase capacity with a pay back of less than twelve months. In addition, the new bar coding system continued to be extended to new operational activities within the Company which will further enhance the Company's efficiencies and customer service. Over the coming year, the Company is intending to increase significantly its investment in the distillation area where the majority of high value added products are produced. In addition, ongoing changes to legislation and regulations will require further plant and machinery investment throughout the site. As ever, the Company will keep under constant review the facilities and logistical set up at its plant in England and will make appropriate investments as and when required.

Treatt USA

Over the coming year, Treatt USA will be expanding its laboratories and relocating a number of administration functions to the new building acquired last year. In addition, they will continue to invest in the Treattarome™ business and are planning to install a new pilot plant for Research and Development into new essential oil distillation products. In addition, there may be some purely "business driven" capital expenditure which may arise in relation to new business.

Research and Development (R&D)

As well as the investment referred to above, during the year R.C. Treatt invested in a new, multi-functional pilot plant which is being used primarily for R&D. The new pilot plant at Treatt USA (referred to above) will also enable the technical team in the US to develop and test new techniques and processes. In addition to the on-going strengthening of our R&D capabilities, the Group will continue to invest in high calibre technical personnel in order to enhance the Group's service offering to its customers. The Group also carries out a significant amount of global research into new and changing raw materials from around the world and continues to develop close partnerships with companies in producing countries in order to develop new sources of raw materials on a financially sustainable basis.

Personnel

As previously announced, at the start of the year new flexible contracts were introduced for operational and technical personnel at R.C. Treatt. These new contracts have modernised working practices in the UK and enables the Group to respond competitively to short term fluctuations in demand. Over the past year, Treatt USA have implemented a job evaluation and career progression programme enabling employees to progress within the organisation when they reach skill levels which are required by the business.

FINANCIAL REVIEW 2006

"Dividends increased by 10% following strong underlying performance"

Performance Analysis

Income Statement

Group revenue increased by 8.9% during the year to £35.41m (2005 restated: £32.52m). R.C. Treatt's sales rose by 9.6% whilst in constant currency, sales at our USA subsidiary, Treatt USA, increased in US Dollars by 3.7%. Earnings before interest, tax, depreciation and amortisation for the year fell by 3.3% to £4.36m (2005 restated: £4.51m) and Group profit before tax similarly fell by 3.5% to £3.29m (2005 restated: £3.41m).

These results were achieved despite the absence of last year's substantial one-off stock gains. In view of this the Board believe that the underlying performance of the Group was strong and are, consequently, able to increase the total dividend for the year by 10.5% to 10.5 pence per share, resulting in dividend cover remaining at more than twice earnings.

Whilst, as expected, there was a substantial reduction in profits from orange and grapefruit oil products, overall profitability held up better than expected, principally as a result of strong growth from sales of aromatic chemicals which increased by 15% year on year.

Gross margins of 28.6% were achieved this year (2005: 32.5%) despite the absence of last year's increased margins which had arisen on orange and grapefruit oil products. Over the last year, Aroma Chemical margins have remained firm despite fierce competition as customers look to Treatt not just for competitive pricing, but excellent service too. Over the year the US Dollar (being Treatt's most significant currency) weakened from $1.77 to $1.87, a movement of 5.6% which created a natural downward pressure on margins.

The Group's administrative expenses fell by a satisfactory 5.7% to £6.6m (2005: £7.0m). This decrease reflects a 'levelling out' of the Group's overhead base following a stepped change in the infrastructure at Treatt USA over the last three years. The 2006 administrative expenses of £6.6m are 10% higher than in 2004. Staff numbers across the Group increased to 180 employees, having grown by 4% on the previous year. This increase in headcount included some key appointments in sales, operations and technical laboratory staff in the UK in order to further enhance R.C. Treatt's innovative capabilities for the future.

The Group's net finance costs increased by 47% to £210,000 (2005 restated: £143,000) reversing a declining trend for the last few years. This is largely a consequence of the sharply increased US base rates over the last two years together with an increase in base rates in the UK. As explained below, total borrowings were also increased. Interest cover for the year was still a comfortable 17 times (2005 restated: 25 times).

Earnings per share for the year remained constant at 23.3 pence per share (2005 restated: 23.3 pence). The calculation of earnings per share excludes those shares which are held by the Treatt Employee Benefit Trust (EBT) since they do not rank for dividend.

During the year the Group continued its programme of offering share saving schemes on an annual basis for 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 savings plans. As part of this programme, options were granted over a further 51,000 shares during the year. Following its establishment in 2004, the EBT currently holds 262,000 shares (2005: 300,000) acquired in the market in order to satisfy future option schemes without causing any shareholder dilution.

Cash Flow

During the year, total borrowings of the Group increased by £2.6m to £4.6m (2005: £2.0m). However, the underlying cash performance of the Group remains strong since the increased borrowings can be entirely attributed to increased inventory balances and additional pension contributions. The Group remains committed to holding appropriate levels of inventory in order to secure supply and maintain long term delivery commitments to customers.

Capital expenditure for the year remained steady at £0.8m (2005: £0.9m), details of which are provided in the Operating Review.

Balance Sheet

Over the year Group shareholders' funds have grown to £18,141,000 (2005 restated: £17,220,000), with net assets per share increasing to £1.76 (2005 restated: £1.67). Net current assets represent 75% (2005 restated: 74%) of shareholders' funds and the Group's land and buildings are all held at historical cost. It should be noted, however, that net assets have been reduced by £546,000 (2005: £625,000) as a result of shares held by the EBT due to the accounting requirements for employee trusts. This impact will be reversed when these shares are used to satisfy employee share saving schemes.

Treasury Policies
The Group operates a conservative set of 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. This risk manifests itself in a number of ways.

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

Secondly, with R.C. Treatt exporting to over 80 countries, fluctuations in Sterling's value can affect both the gross margin and operating costs. Sales are principally made in three currencies in addition to Sterling, with the US Dollar being by far the most significant. Even if a sale is made in Sterling, its price may be set by reference to its US Dollar denominated commodity price and therefore have an impact on the Sterling gross margin. Raw materials are also mainly purchased in US Dollars and therefore a US Dollar bank account is operated, through which Dollar denominated sales and purchases flow. If there is a mismatch in any one accounting period and the Sterling to US Dollar exchange rate changes, an exchange difference will arise. 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 as this is the most cost effective means of providing a natural hedge against movements in the US Dollar/Sterling exchange rate. Currency accounts are also run for the other main currencies to which R.C. Treatt is exposed. This policy will protect the Group against the worst of any short-term swings in currencies.

International Financial Reporting Standards
As a company listed on the London Stock Exchange, Treatt is required to implement International Financial Reporting Standards (IFRS) with effect from accounting periods beginning on or after 1 January 2005. Therefore these are the first set of full financial statements which have been published using IFRS. The most significant effect of IFRS flows from *IAS 19: Employee Benefits* which requires the surplus or deficit in the defined benefit pension scheme operated by R.C. Treatt to be brought on to the balance sheet using similar calculations as previously prescribed by FRS 17. The only other material impact of IFRS relates to the treatment of dividends which are now only accounted for when they are paid (interim dividends) or approved at the Annual General Meeting (final dividends). This has had the positive effect of reducing the Company's liabilities by approximately £1m. The remaining impact of IFRS has resulted in a significant increase in the level of detail and complexity contained within these financial statements which have consequently increased in volume by over 25% to 54 pages.

Final Salary Pension Scheme

Every three years the pension scheme actuary carries out a full actuarial review of the final salary pension scheme to assess the extent to which R.C. Treatt's current contribution rates to the scheme are expected to meet the future liabilities of the scheme. In addition, the trustees of the scheme are required to discuss with the Company the latest guidance from the Pension Regulator that contribution rates should be set to clear any deficit within 10 years.

The scheme has been closed to new entrants since 2001 and 'final salaries' were frozen in real terms in 2003. The scheme has also enjoyed excellent investment returns over the last three years. Despite these factors, the 2006 actuarial review reported an increase in the actuarial deficit (which should not be confused with the IAS 19 deficit referred to above). The movement in this deficit can be explained as follows:

Analysis of Actuarial Deficit

	£'000
Original deficit at 1 January 2003	(2,736)
Effect of capping pensionable salary increases to RPI	896
Revised deficit at 1 January 2003	(1,840)
Interest on deficit	(421)
Investment return higher than expected	1,813
Company contributions in excess of benefits accruing over three years	375
Change of actuarial assumptions	(3,092)
Miscellaneous items	143
Deficit at 1 January 2006	(3,022)

The main explanation as to why the deficit has increased is that the actuarial assumptions, largely in relation to life expectancy, increased the liabilities of the scheme by more than £3m. Following the actuarial review, the Company met with the trustees of the scheme and agreed to take the following actions:

(1) To make two additional special contributions in July and October 2006 totalling £1.5m; and

(2) To increase on-going contributions to £630,000 per annum (previously £445,000 per annum) increasing by RPI.

As a result of these actions, the deficit in the pension scheme is currently expected to be eliminated by 2017, assuming actuarial assumptions remain unchanged.

Group Tax Charge

The Group's current year tax charge of £788,000 (2005: £1,159,000) represents an effective tax rate of 24% (2005 restated: 34%). This is significantly lower than the standard rate of UK corporation tax of 30% as a result of tax relief received in relation to cash contributions to the final salary pension scheme during the year including a one-off payment of £465,000. Similarly, in 2007 the Group expect to receive additional tax relief of £300,000 in relation to a one-off payment of £1m made to the pension scheme in October 2006 (see post balance sheet events note in the Directors' Report). The overall tax charge of £956,000 (2005 restated: £1,070,000) has fallen in line with profits. Last year's estimated Florida state tax of $102,000 was reduced to $49,000 when the returns were finalised, resulting in the prior year tax adjustment disclosed in note 4.

TREATT PLC
PRELIMINARY STATEMENT
FOR THE YEAR ENDED 30 SEPTEMBER 2006
GROUP INCOME STATEMENT

	Notes	**2006**	2005
		£'000	£'000
			(Restated)
Revenue	3	**35,411**	32,521
Cost of sales		**(25,292)**	(21,952)
Gross profit		**10,119**	10,569
Administrative expenses		**(6,621)**	(7,020)
Operating profit		**3,498**	3,549
Finance revenue		**243**	176
Finance costs		**(453)**	(319)
Profit before taxation		**3,288**	3,406
Taxation	4	**(956)**	(1,070)
Profit for the year attributable to equity shareholders		**2,332**	2,336
Earnings per share:			
Basic	6	**23.3p**	23.3p
Diluted	6	**23.2p**	23.2p

All amounts relate to continuing operations

TREATT PLC
PRELIMINARY STATEMENT
FOR THE YEAR ENDED 30 SEPTEMBER 2006
GROUP STATEMENT OF RECOGNISED INCOME AND EXPENSE

	2006	2005
	£'000	£'000
		(Restated)
Profit for the period	**2,332**	2,336
Currency translation differences on foreign currency net investment	**(293)**	123
Actuarial loss on defined benefit pension scheme	**(389)**	(257)
Deferred taxation on actuarial loss	**117**	77
Total recognised net income for the period	**1,767**	2,279

TREATT PLC
PRELIMINARY STATEMENT
FOR THE YEAR ENDED 30 SEPTEMBER 2006
GROUP BALANCE SHEET

	2006 £'000	2005 £'000 (Restated)
ASSETS		
Non-current assets		
Property, plant and equipment	**8,484**	8,650
Intangible assets	**581**	724
Deferred taxation	**457**	521
	9,522	9,895
Current assets		
Inventories	**13,958**	11,395
Trade and other receivables	**6,389**	5,718
Cash and cash equivalents	**-**	297
	20,347	17,410
Total assets	**29,869**	27,305
LIABILITIES		
Current liabilities		
Bank loans and overdrafts	**(2,710)**	(144)
Trade and other payables	**(3,790)**	(3,934)
Corporation tax payable	**(211)**	(589)
	(6,711)	(4,667)
Net current assets	**13,636**	12,743
Non-current liabilities		
Bank loans	**(1,927)**	(2,179)
Post-employment benefits	**(3,090)**	(3,239)
	(5,017)	(5,418)
Total liabilities	**(11,728)**	(10,085)
Net assets	**18,141**	17,220
SHAREHOLDERS' EQUITY		
Called up share capital	**1,029**	1,029
Share premium account	**2,143**	2,143
Own shares in share trust	**(546)**	(625)
Employee share option reserve	**34**	14
Foreign exchange reserve	**(992)**	(699)
Profit & loss account	**16,473**	15,358
Shareholders' Equity	**18,141**	17,220

TREATT PLC
PRELIMINARY STATEMENT
FOR THE YEAR ENDED 30 SEPTEMBER 2006
GROUP STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

	2006	2005
	£'000	£'000
		(Restated)
Total recognised net income for the period	**1,767**	2,279
Dividends	**(949)**	(881)
Share-based payments	**23**	12
Movement in own shares in share trust	**79**	(347)
Gain on release of shares in share trust	**1**	-
Increase in shareholders' equity	**921**	1,063
Opening shareholders' equity	**17,220**	16,157
Closing shareholders' equity	**18,141**	17,220

TREATT PLC
PRELIMINARY STATEMENT
FOR THE YEAR ENDED 30 SEPTEMBER 2006
GROUP CASH FLOW STATEMENT

	2006	2005
	£'000	£'000
		(Restated)
Cash flow from operating activities		
Profit before taxation	**3,288**	3,406
Adjusted for:		
Foreign exchange (gain)/loss	**(210)**	104
Depreciation of property, plant and equipment	**685**	738
Amortisation of intangible assets	**182**	225
Loss on disposal of property, plant and equipment	**52**	135
Loss on disposal of intangible assets	**2**	-
Net interest payable	**235**	90
Share-based payments	**23**	12
(Decrease)/increase in post-employment benefit obligation excluding special pension contribution	**(73)**	38
Operating cash flow before movements in working capital and special post-employment benefit contribution	**4,184**	4,748
Special post-employment benefit contribution	**(465)**	-
Changes in working capital:		
Increase in inventories	**(2,563)**	(3,040)
(Increase)/Decrease in trade and other receivables	**(671)**	288
(Decrease)/increase in trade and other payables	**(144)**	642
Cash generated from operations	**341**	2,638
Taxation paid	**(1,153)**	(812)
Net cash from operating activities	**(812)**	1,826
Cash flow from investing activities		
Purchase of property, plant and equipment	**(775)**	(804)
Purchase of intangible assets	**(41)**	(58)
Interest receivable	**218**	176
	(598)	(686)
Cash flow from financing activities		
Repayment of bank loans	**(137)**	(144)
Interest payable	**(453)**	(266)
Dividends paid	**(949)**	(895)
Net sales/(purchase) of own shares by share trust	**79**	(347)
	(1,460)	(1,652)
Net decrease in cash and cash equivalents	**(2,870)**	(512)
Cash and cash equivalents at beginning of period	**297**	809
Cash and cash equivalents at end of period	**(2,573)**	297
Cash and cash equivalents comprise:		
Cash and cash equivalents	**-**	297
Bank overdrafts	**(2,573)**	-
	(2,573)	297

TREATT PLC
PRELIMINARY STATEMENT
FOR THE YEAR ENDED 30 SEPTEMBER 2006
GROUP RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET DEBT

	2006	2005
	£000's	£000's
		(Restated)
Decrease in cash and cash equivalents	**(2,870)**	(512)
Repayment of borrowings	**137**	144
Cash outflow from change in net debt in the year	**(2,733)**	(368)
Effect of foreign exchange rates	**122**	(55)
Movement in net debt in the year	**(2,611)**	(423)
Net debt at start of the year	**(2,026)**	(1,603)
Net debt at end of the year	**(4,637)**	(2,026)

TREATT PLC
PRELIMINARY STATEMENT
FOR THE YEAR ENDED 30 SEPTEMBER 2006
NOTES TO THE PRELIMINARY STATEMENT

1. Basis of preparation

In accordance with Section 240 of the Companies Act 1985, the Company confirms that the financial information for the years ended 30 September 2006 and 2005 are derived from the Group's audited financial statements, these are not statutory accounts. The financial information for the year ended 30 September 2005 has been restated in accordance with International Financial Reporting Standards and therefore differs from those delivered to the Registrar of Companies. These statements received an unqualified audit opinion and the auditor’s report contained no statement under section 237(2) or 237(3) of the Companies Act 1985.

Prior to 2006 the Group prepared its audited financial statements under United Kingdom Generally Accepted Accounting Practice (UK GAAP). For the year ended 30 September 2006 the Group is required to prepare its annual consolidated financial statements in accordance with International Financial Reporting Standards (IFRS) adopted by the European Union. These financial statements have been prepared in accordance with the accounting policies set out in the full financial statements, taking into account the requirements and options in IFRS 1 ‘First-time adoption of International Financial Reporting Standards’. The Group has not adopted the reporting requirements of IAS 34 ‘Interim Financial Reporting’. The transition date for the Group’s application of IFRS is 1 October 2004 and the comparative figures for 30 September 2005 have been restated accordingly. Reconciliations of the income statement (previously profit and loss account), balance sheet and cash flow statement from previously reported UK GAAP to IFRS are shown in note 7.

The financial information contained within this preliminary statement was approved by the Board on 8 December 2006.

2. Accounting policies – explanation of transition to IFRS

This is the first year that the company has presented its financial statements under IFRS. The following disclosures are required in the year of transition. The last financial statements under UK GAAP were for the year ended 30 September 2005 and the date of transition to IFRS was therefore 1 October 2004.

The effects of implementing IFRS can be summarised as follows:

<u>(a) Defined Benefit Pension Scheme</u>
In accordance with IAS 19, “Employee Benefits”, the deficit in the defined benefit pension scheme for certain UK employees is recognised as a liability of the Group under non-current liabilities. This was previously disclosed as a note to the financial statements under the transitional arrangements under FRS17 in accordance with UK GAAP. The resultant deferred tax asset is netted against existing deferred tax liabilities, to create an overall deferred tax asset.

In addition, the service cost and expected return on assets net of interest on scheme liabilities is reflected in the income statement for the period, in place of the actual cash contribution made. All experience gains or losses on the assets and liabilities of the scheme, together with the effect of changes in assumptions is reflected as a gain or loss in the Statement of Recognised Income and Expense.

<u>(b) Share-based Payments</u>
IFRS 2, "Share-based Payments" requires that an expense for equity instruments granted be recognised in the financial statements based on their fair value at the date of grant. This expense, which is in relation to employee share option schemes for staff in the UK and US, is recognised over the vesting period of the scheme.

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

<u>(c) Post Balance Sheet Events and Dividends</u>
IAS 10, "Events after the Balance Sheet Date" requires that final dividends declared after the balance sheet date should not be recognised as a liability at that balance sheet date as the liability does not represent a present obligation as defined by IAS 37, "Provisions, Contingent Liabilities and Contingent Assets". Instead, final dividends for the Group should only be recognised as a liability once formally approved at the Annual General Meeting. Furthermore, interim dividends, in accordance with ICAEW Technical Release 57/05, are no longer recognised as a liability until paid.

The interim and final dividends in relation to the financial year 30 September 2005 totalling £949,000 have therefore been reversed in the respective balance sheet.

(d) Effect of Changes in Foreign Exchange Rates
Under IAS 21, "The Effects of Changes in Foreign Exchange Rates", cumulative translation differences which are recognised in the Statement of Recognised Income and Expense are separately accounted for within reserves and are transferred from equity to the income statement in the event of the disposal of a foreign operation. All such foreign exchange differences arising in relation to the Group's US subsidiary, Treatt USA, since its formation in 1990, have been transferred from the 'Profit and Loss Reserve' to this newly created 'Foreign Exchange Reserve'.

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

(f) Cash flow
The cash flow statement has been restated to explain the movement in short term cash and cash equivalents, instead of the movement in total short and long term cash.

(g) IFRS Comparatives
For a reconciliation from UK GAAP to IFRS for prior period comparatives see note 7.

3. Segmental information

Geographical Segments
The following table provides an analysis of the group's revenue by geographical market, irrespective of the origin of the goods or services:

	2006	2005
	£'000	£'000
Revenue by destination		
United Kingdom	**6,460**	6,314
Rest of Europe	**10,542**	9,331
The Americas	**10,142**	8,816
Rest of the World	**8,267**	8,060
	35,411	32,521

4. Taxation

	2006	2005
	£'000	£'000
		(Restated)
UK Corporation tax	**655**	784
Overseas tax	**133**	375
Transfer (from)/ to deferred tax	**194**	(64)
UK prior year corporation tax	**10**	(8)
Overseas prior year tax	**(36)**	(1)
Prior year deferred tax	**-**	(16)
	956	1,070

5. Dividends

	2006	2005
	£'000	£'000
		(Restated)
Equity dividends on ordinary shares:		
Interim dividend for year ended 30 September 2005 - 3.1p per share	310	
Final dividend for year ended 30 September 2005 - 6.4p per share	639	
Interim dividend for year ended 30 September 2004 - 2.7p per share		278
Final dividend for year ended 30 September 2004 - 6.1p per share		615
Over accrual from previous year		(12)
	949	881

The declared interim dividend for the year ended 30 September 2006 of 3.4 pence was approved by the Board on 19 May 2006 and was paid on 2 October 2006. Accordingly it has not been included as a deduction from equity at 30 September 2006. The proposed final dividend for the year ended 30 September 2006 of 7.1 pence will be voted on at the Annual General Meeting on 26 February 2007. Both dividends will therefore be accounted for in the results for the year ended 30 September 2007

6. Earnings per Ordinary Share

(1) 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 of 9,998,572 (2005: 10,024,533) and earnings of: £2,332,000 (2005 restated: £2,336,000), being the profit on ordinary activities after taxation.

The weighted average number of shares excludes shares held by the “Treatt Employee Benefit Trust”.

(2) 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, of 10,049,544 (2005: 10,050,258); and the same earnings as above.

7. Explanation of transition to IFRS

Reconciliation of the Group Income Statement for the year ended 30 September 2005

	UK GAAP 30/09/2005 £'000	IFRS Adjustments £'000	IFRS 30/09/2005 £'000
Revenue	32,521		32,521
Cost of sales	(21,952)		(21,952)
Gross profit	10,569	-	10,569
Administrative expenses	(7,023)	3	(7,020)
Operating profit	3,546	3	3,549
Finance revenue	176		176
Finance costs	(266)	(53)	(319)
Profit before tax	3,456	(50)	3,406
Taxation	(1,082)	12	(1,070)
Profit for the period attributable to equity Shareholders	2,374	(38)	2,336
Earnings per share – basic	23.7p		23.3p
Earnings per share – diluted	23.6p		23.2p

Reconciliation of the Group Statement of Recognised Income and Expense for the year ended 30 September 2005

	UK GAAP 30/09/2005 £'000	IFRS Adjustments £'000	IFRS 30/09/2005 £'000
Profit for the financial period	2,374	(38)	2,336
Currency translation on foreign currency net Investment	123		123
Actuarial loss on defined benefit pension scheme	-	(257)	(257)
Deferred tax on actuarial loss	-	77	77
Total recognised net income for the period	2,497	(218)	2,279

7. Explanation of transition to IFRS (continued)

Reconciliation of the Group Balance Sheet for the year ended 30 September 2005

	UK GAAP 30/09/2005 £'000	IFRS Adjustments £'000	IFRS 30/09/2005 £'000
ASSETS			
Non-current assets			
Property, plant and equipment	9,374	(724)	8,650
Intangible assets	-	724	724
Deferred tax	-	521	521
	9,374	521	9,895
Current assets			
Inventories	11,395		11,395
Trade and other receivables	5,718		5,718
Cash and cash equivalents	297		297
	17,410	-	17,410
LIABILITIES			
Current liabilities			
Bank loans and overdrafts	(144)		(144)
Trade and other payables	(4,883)	949	(3,934)
Corporation tax payable	(589)		(589)
	(5,616)	949	(4,667)
Net current assets	11,794	949	12,743
Non-current liabilities			
Bank loans	(2,179)		(2,179)
Post-employment benefits	-	(3,239)	(3,239)
Deferred tax liabilities	(451)	451	-
	(2,630)	(2,788)	(5,418)
Net assets	18,538	(1,318)	17,220
SHAREHOLDERS' EQUITY			
Called up share capital	1,029		1,029
Share premium account	2,143		2,143
Own shares in share trust	(625)		(625)
Employee share option reserve	-	14	14
Foreign exchange reserve	-	(699)	(699)
Retained earnings	15,991	(633)	15,358
Total Shareholders' Equity	18,538	(1,318)	17,220

7. Explanation of transition to IFRS (continued)

Reconciliation of the Group Cash Flow Statement for the year ended 30 September 2005

	UK GAAP 30/09/2005 £'000	IFRS Adjustments £'000	IFRS 30/09/2005 £'000
Cash flow from operating activities			
Profit before taxation	3,456	(50)	3,406
Adjusted for:			
Foreign exchange loss	49	55	104
Depreciation of property, plant and equipment	963	(181)	782
Amortisation of intangible assets	-	181	181
Loss on disposal of property, plant and equipment	135		135
Net interest payable	90		90
Share option charge	-	12	12
Pension funding	-	38	38
	4,693	55	4,748
Changes in working capital:			
Increase in inventories	(3,040)		(3,040)
Decrease in trade and other receivables	288		288
Increase in trade and other payables	642		642
Cash generated from operations	2,583	55	2,638
Tax paid	(812)		(812)
Net cash from operating activities	1,771	55	1,826
Cash flow from investing activities			
Purchase of property, plant and equipment	(862)	58	(804)
Purchase of intangible assets	-	(58)	(58)
Interest receivable	176		176
	(686)	-	(686)
Cash flow from financing activities			
Repayment of bank loans	-	(144)	(144)
Interest payable	(266)		(266)
Dividends paid	(895)		(895)
Net acquisition of own shares by share trust	(347)		(347)
	(1,508)	(144)	(1,652)
Net decrease in cash and cash equivalents	(423)	(89)	(512)
Cash and cash equivalents at beginning of period	(1,603)	2,412	809
Cash and cash equivalents at end of period	**(2,026)**	**2,323**	**297**