# TREATT PLC
# PRELIMINARY STATEMENT
# FOR THE YEAR ENDED 30 SEPTEMBER 2007

Treatt Plc, the manufacturer and supplier of conventional, organic and ethically-traded ingredients for the flavour, fragrance and cosmetic industries, announces today its preliminary results for the year ended 30 September 2007.


**Summary**

Group revenue increased by 7.5% to £38.07 million (2006: £35.41 million)

Dividends increased 2.9% to 10.8p per share (2006: 10.5p)

EBITDA decreased 5% to £4.2m (2006: £4.4m)

Profit before tax 14% lower at £2.83 million (2006: £3.29 million)

Earnings per share down 14% to 20.0p (2006: 23.3p)



Enquiries:

| | |
|---|---|
| Treatt plc | Tel: 01284 702500 |
| Hugo Bovill | Managing Director |
| Richard Hope | Finance Director (Mobile on 10 December 2007: 07881 508437) |

# CHAIRMAN'S STATEMENT

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***"The Group had a mixed performance with sales increasing by 7.5% to £38.1m"***

In 2007, Group revenue continued to grow with an increase for the year of 7.5% to £38.07m (2006: £35.41m). Group earnings before interest, tax, depreciation and amortisation decreased by 4.4% to £4.17m (2006: £4.36m) with profit before tax for the year reducing by 14% to £2.83m (2006: £3.29m). Basic earnings per share reduced to 20.0 pence (2006: 23.3 pence). The level of the Group's net debt/equity ratio* ended the year at 32% (2006: 14%).

The Board is proposing a final dividend of 7.3 pence (2006: 7.1 pence), increasing the total dividend for the year by 2.9% to 10.8 pence (2006: 10.5 pence) per share. The final dividend will be payable on 7 March 2008 to all shareholders on the register at close of business on 1 February 2008.

The performance of the Group as a whole was disappointing as a result of a poor performance in the USA, together with the UK business being affected by the significant adverse movement in the value of the US Dollar versus Sterling. Sales of orange oil products (which represent 16% of Group revenue) increased by 20% during the year whilst contribution fell by 2% as a result of product mix and exchange rate factors. The price of orange oil has remained above $2 per kilo throughout the year.

R.C. Treatt, the Group's UK operating subsidiary, continued to operate strongly with growth in both essential oils (particularly to the Middle East) and also global aroma chemical sales in spite of strong competition. The Company has continued to strengthen over the last year and is now focusing more on its own branded aroma chemicals than the distribution of major companies' products. Turnover has increased by 8% to £29.7m (2006: £27.5m), with profits remaining unchanged. The weakening of the US Dollar had a seriously negative impact on the UK business and resulted in sales (on a constant currency basis) being £1.2m lower than would otherwise have been the case. Indeed, R.C. Treatt's gross margins for the year suffered foreign exchange losses of more than £600k, which was partly offset by hedging gains totalling £300k. Without these foreign exchange losses, R.C. Treatt's profits would have shown strong growth. Margins on non-orange citrus oils were further reduced due to a major supplier default even though the materials concerned were nevertheless covered in (at higher prices) and delivered on time.

Treatt USA, continues to have a challenging time but we have strengthened the sales force and remain confident of future growth. Whilst sales in US Dollars grew by more than 15%, the sales mix in the year resulted in a significant fall in the gross margin percentage. Grapefruit oil sales remain weak but there is more demand for the Company's tea products (part of the Treattarome™ product range) which are beginning to show signs of success. Overall, the growth in Treattarome™ sales continued with an increase, in US Dollars, of 13%.

With a presence in Europe, the United States and China, over the last year Treatt has continued to strengthen its position 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.

**Acquisition of 50% of Earthoil**
We were delighted to announce at the end of February that we had acquired 50% of Earthoil Plantations Limited, based in the UK, and 50% of Earthoil Kenya Pty EPZ Limited (together known as 'Earthoil') which is based in a tax-free zone just outside Nairobi. Earthoil manufactures and supplies organically-certified and ethically-traded essential oils and vegetable oils, mainly for the cosmetics industry. The organic market represents a new area for Treatt with high growth potential. The total consideration for the acquisition was £2.7m, being satisfied by a mix of cash, loan notes and Treatt shares. Additionally, Treatt has the option to acquire the remaining 50% of the issued share capital of Earthoil from 2012. Although in the seven months to 30 September 2007 the Group's share of Earthoil incurred a loss of £70k these are very early days for this investment, which we expect to become of significant and strategic value over the coming years.

**Pension Deficit**
As previously announced, the Company made a special pension contribution of £1m in October 2006. This, together with a strong investment performance and standard changes in actuarial assumptions, has resulted in last year's liability of £3.1m turning into a small pension asset this year. For further information on this please see the Financial Review. As a result, net assets per share have increased by 10.4% to 194.6 pence per share (2006: 176.3 pence per share).

**Prospects**
The new financial year has got off to a solid start, with Treatt USA performing much better than in the same period last year. Over the coming year, margins are expected to remain under significant pressure as a consequence of

continued weakness in the US Dollar. We are expecting sales growth to continue across the broad product range, with continued strong performance in the Middle East and China, whilst sales to mainland Europe are expected to perform well.

As reported last year, the industry continues to undergo change and with two of the top ten flavour and fragrance companies being taken over by others within the top ten it can make the future look uncertain for sales to these companies. On the positive side, with an increasing number of defaults from Far East suppliers, buyers are becoming more and more aware of the value of sourcing through reliable, independent, companies like Treatt.

With petroleum prices remaining high, and thereby underpinning many essential oil and aroma chemical prices, the price of the majority of raw materials used by the Group are expected to remain firm or increase. Orange oil prices are expected to remain at relatively high levels for the foreseeable future.

**People**

Finally, the Board would like to place on record its thanks to colleagues throughout the world, for their effort, commitment and dedication to Treatt.

**EDWARD DAWNAY**
Chairman
7 December 2007

* Equity is defined as the market value of the Company's share capital as at 30 September of the corresponding year.

# OPERATING REVIEW 2007

***"The Group's competitiveness has been enhanced through investment in increased manufacturing capacity and efficiency improvements"***

The Group continued to make substantial operational improvements throughout 2007, particularly through investment in its manufacturing capabilities, with much of this investment having payback periods of less than one year. This investment will enable the Group to increase production of added–value manufactured products at the same time as reducing their production costs. In time, this should enable the Group to increase market share, whilst maintaining margins.

In addition, the Group continues to leverage its Enterprise Resource Planning (ERP) system through a process of continuous enhancement. During the year, R.C. Treatt completed the implementation of its bar coding system which has now been fully integrated with the ERP system. With the Group's relatively high levels of inventory (see Financial Review for details), a very high priority is placed on the accuracy, management and control of inventory, such that old age and obsolescence provisions are consistently below 1% of total inventory values.

As the Group continues to grow, 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. Nevertheless, we are regularly reviewing our property requirements and if appropriate additional premises become available in suitable locations then the Board will give such property purchases their full consideration.

Treatt continue to take a leading role in the implementation process for the European REACH (Registration, Evaluation and Authorisation of Chemicals) legislation which 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. Indeed, Treatt remain committed to playing an active role in debating, lobbying and implementing legislative change and we also continue to demonstrate our commitment to 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).

During the course of the year, Treatt bought and sold materials in almost one hundred countries around the world and we believe that this global reach enables the Group to be 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***

Over the year, orange oil, an orange juice by-product which represents about 16% of Group revenue, remained at historically high levels, being consistently above $2 per kilo. In addition, the market price of orange terpenes, in turn a commodity co-product from orange oil, has remained firm for most of the year.

***R.C. Treatt***

Revenue increased by 8% with sales to the top ten customers again representing just over one third of turnover. Underlying this there was a significant increase in activity levels with a 9% increase in the number of customer orders processed, resulting in a net productivity improvement of 23%. This demonstrates the fact that, without the adverse impact of foreign currency movements, the underlying performance of the UK business remains strong. As explained in the Chairman's Statement, the net impact of the weakening US Dollar has been to reduce the Company's profits by about £300,000. The overall diversity of R.C. Treatt's product range and customer base, both in terms of size and location, continues to provide a well-balanced risk profile.

***Treatt USA***

2007 has proved to be a difficult year for Treatt USA because although sales in US Dollars grew by 15%, margins were significantly lower due to the adverse product mix with weaker than expected revenue from added-value citrus oil products. Treattarome™ products continue to provide exciting and innovative opportunities for growth with tea products, in particular, proving to be popular.

***Treatt China***
Following the opening of our Shanghai office in 2006, the Board continue to review the progress of its activities in China which we consider to be an essential part of the Group's long term growth plans. On a constant currency basis, sales continued to perform well to China and Hong Kong, but again margins were adversely affected by the impact of the weakening US Dollar.

## Investment for the Future

***R.C. Treatt***
The level of capital expenditure in 2007 of £0.9m (2006: £0.6m) was, as expected, in line with historic levels. As well as the investment in manufacturing and bar coding referred to above, the Company continued to increase the capabilities of its laboratories with state of the art analytical equipment. Over the coming year, the Company plans to continue its investment in the manufacturing area and will also need to significantly increase its expenditure in relation to regulatory matters in response to changes in both UK and European legislation. 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***
In recent months, Treatt USA has expanded its laboratories and relocated a number of administration functions to the new building which it acquired in 2005. Over the coming year the Company will continue to invest in the Treattarome™ business and plans to invest in enhancements to its principal manufacturing capabilities. In addition, there may be some purely "business driven" capital expenditure which may arise in relation to new business.

## Research and Development (R&D)

Following the investment last year by R.C. Treatt in a new, multi-functional, pilot plant the Company is already reaping the rewards of this investment with new discoveries which, in themselves, have driven some of the proposals for further investment in manufacturing. Treatt USA will, over the coming year, be investing further to increase its laboratory capabilities, particularly with regard to industrial contaminant and agricultural residue detection. 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

The Board recognises the importance of continually updating its long term personnel strategy and as part of this succession planning R.C. Treatt has continued to develop its Graduate Trainee Programme. As well as bringing new talent into the business this has provided a dedicated resource into specialist areas such as REACH as well as enabling the recruitment of more multi-lingual employees. In addition an exchange programme has been implemented between R.C. Treatt and Treatt USA enabling ideas and expertise to be shared throughout the Group.

# FINANCIAL REVIEW 2007

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***"R.C. Treatt's revenue increased by 8%, with net profit unchanged, despite adverse impact of weak US Dollar"***

**Performance Analysis**

***Income Statement***

Group revenue increased by 7.5% during the year to £38.07m (2006: £35.41m). R.C. Treatt's sales rose by 8.1% whilst in constant currency, sales at our USA subsidiary, Treatt USA, increased in US Dollars by 15.2%. Earnings before interest, tax, depreciation and amortisation for the year fell by 4.4% to £4.17m (2006: £4.36m) and Group profit before tax fell by 14% to £2.83m (2006: £3.29m).

The total dividend for the year has been increased by 2.9% to 10.8p per share, resulting in a dividend cover of 1.85 times earnings.

Over the last two years, the US Dollar has weakened against Sterling by more than 15% which, as explained in the Chairman's Statement, has had a significant impact on operating margins. In 2007 the US Dollar (being Treatt's most significant currency) weakened from $1.87 to $2.04, a movement of 9.1%. Sales of aromatic chemicals remained strong and Treattarome™ products continued to perform well. Revenue from orange oil products rose during the year by almost 20%, although the contribution from these products actually fell due to the adverse product mix combined with the foreign currency effect.

Gross margins of 26.8% were achieved this year (2006: 28.6%) despite the foreign exchange impact. Over the last year, Aroma Chemical margins have again remained steady despite fierce competition as customers look to Treatt not just for competitive pricing, but excellent service too.

The Group's administrative expenses increased approximately in line with inflation, by 3.8% to £6.87m (2006: £6.62m). This follows a 6% reduction in overhead costs in the preceding year. Staff numbers across the Group increased to 188 employees, having grown by 4% on the previous year. This increase in headcount included some key appointments in sales at Treatt USA as well as growth driven increases in operations where required.

There was a substantial increase in the Group's net finance costs which more than doubled from £210,000 to £436,000. This resulted from the combined effect of increasing US and UK base rates together with the impact of higher levels of borrowing as explained below. Interest cover for the year was still a comfortable 7.5 times (2006: 16.7 times).

Basic earnings per share for the year decreased to 20.0 pence (2006: 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 annual programme of offering share saving schemes 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 48,000 shares during the year, whilst 53,000 were exercised by UK employees under the 2004 Save As You Earn scheme. Following its establishment in 2004, the EBT currently holds 309,000 shares (2006: 262,000) acquired in the market in order to satisfy future option schemes without causing any shareholder dilution. Furthermore, by holding shares in the EBT for some time before they are required in order to satisfy the exercise of options, it is expected that the current programme of employee share option schemes will be self-financing.

***Interests in Joint Ventures***

As explained in the Chairman's statement, in February 2007 the Group acquired 50% of 'Earthoil'. Established in 2001 and based in Lichfield, Staffordshire, and Nairobi, Kenya, Earthoil is a specialist in its field, growing, manufacturing, sourcing and trading high quality, organically-certified and ethically-traded essential oils and vegetable oils (also known as "nut" or "seed" oils) as well as other natural extracts. More information on Earthoil can be found at *www.earthoil.com*.

The organic and fair trade markets offer substantial growth opportunities in the cosmetics industry as well as in the flavour and fragrance industry. There is considerable and growing demand in international markets for organic and ethically-traded raw materials for use in food and health and beauty-related products.

The total consideration for this investment was £2.7m, comprising £1.3m in cash, £0.7m in Loan Notes, £0.64m satisfied through the issue of 188,945 Treatt Ordinary Shares at a price of 337.4 pence and £0.1m of transaction costs.

From 2012, the Group also has the option to acquire (the “Call Option”) the remaining 50% of Earthoil. In addition to this, the existing Earthoil shareholders will have the option to oblige Treatt to buy (the “Put Option”), the remaining 50% of Earthoil shares (which continue to be held by the existing Earthoil shareholders) at the “Option Price”. Exercise of either option is subject to Treatt shareholder approval. The existing Earthoil shareholders will not be able to enforce the Put Option unless Earthoil has met a certain level of pre-tax profit.

The Option Price will be 50% of eleven times the average pre-tax profit (for both Earthoil companies combined) of the two audited financial years ended 31 December prior to exercising the option.

***Cash Flow***
During the year, total borrowings of the Group increased by £5.4m to £10.0m (2006: £4.6m). The increased level of borrowings can be attributed to three main factors being the investment in Earthoil of £2.7m, a special pension contribution of £1m and a £2.3m increase in inventory balances. 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 increased to £1.1m (2006: £0.8m), details of which are provided in the Operating Review.

**Final Salary Pension Scheme**
Following the last three-year actuarial review in January 2006, contributions to the scheme were increased in order to eliminate the actuarial deficit by 2017. In addition, over the last two year’s special contributions totalling £1.5m have also been made.

As a result of these additional contributions together with a £1.9m actuarial gain, the *IAS 19, “Employee Benefits”* pension deficit at the start of the year of £3.1m has become an asset of £70,000 as at 30 September 2007.

The £1.9m actuarial gain consisted of investment returns exceeding expectations by £342,000 with the balance of the gain relating mainly to changes in actuarial assumptions, the most significant of which has been the increase in the rate at which the future liabilities of the scheme have been discounted to the balance sheet date.

Following the changes made to the pension scheme in recent years (see note 23), one third of Group employees remain as members of the final salary scheme and this proportion will continue to decline over time.

**Balance Sheet**
Over the year Group shareholders’ funds have grown to £20,397,000 (2006: £18,141,000), with net assets per share increasing by 10% to £1.946 (2006: £1.763) largely as a result of the elimination of the pension deficit referred to above. Net current assets represent 50% (2006: 75%) 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 £743,000 (2006: £546,000) 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 sufficient 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.

**Group Tax Charge**

The Group's current year tax charge of £383,000 (2006: £762,000) represents an effective tax rate of 14% (2006: 23%). 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 £1m. The overall tax charge of £801,000 (2006: £956,000) has fallen in line with profits. There were no significant adjustments required to the previous year's tax estimates.

**TREATT PLC**
**PRELIMINARY STATEMENT**
**FOR THE YEAR ENDED 30 SEPTEMBER 2007**
**GROUP INCOME STATEMENT**

| | Notes | 2007<br>£'000 | 2006<br>£'000 |
|---|---|---|---|
| **Revenue** | 3 | **38,066** | 35,411 |
| Cost of sales | | **(27,858)** | (25,292) |
| **Gross profit** | | **10,208** | 10,119 |
| Administrative expenses | | **(6,874)** | (6,621) |
| Share of results of joint ventures | | **(70)** | - |
| **Operating profit** | | **3,264** | 3,498 |
| Finance revenue | | **136** | 243 |
| Finance costs | | **(572)** | (453) |
| **Profit before taxation** | | **2,828** | 3,288 |
| Taxation | 4 | **(801)** | (956) |
| **Profit for the period attributable to equity shareholders** | | **2,027** | 2,332 |
| **Earnings per share** | | | |
| Basic | 6 | **20.0p** | 23.3p |
| Diluted | 6 | **19.9p** | 23.2p |

All amounts relate to continuing operations

**TREATT PLC**
**PRELIMINARY STATEMENT**
**FOR THE YEAR ENDED 30 SEPTEMBER 2007**
**GROUP STATEMENT OF RECOGNISED INCOME AND EXPENSE**

| | 2007 £'000 | 2006 £'000 |
|---|---|---|
| Profit for the period | **2,027** | 2,332 |
| Currency translation differences on foreign currency net investment | **(509)** | (293) |
| Actuarial gain/(loss) on defined benefit pension scheme | **1,900** | (389) |
| Deferred taxation on actuarial (gain)/loss | **(532)** | 117 |
| **Total recognised net income for the period** | **2,886** | 1,767 |

**GROUP STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY**

| | 2007 £'000 | 2006 £'000 |
|---|---|---|
| Total recognised net income for the period | **2,886** | 1,767 |
| Dividends | **(1,053)** | (949) |
| Share-based payments | **21** | 23 |
| Increase in share capital | **633** | - |
| Movement in own shares in share trust | **(197)** | 79 |
| (Loss)/gain on release of shares in share trust | **(34)** | 1 |
| **Increase in shareholders' equity** | **2,256** | 921 |
| Opening shareholders' equity | **18,141** | 17,220 |
| **Closing shareholders' equity** | **20,397** | 18,141 |

**TREATT PLC**
**PRELIMINARY STATEMENT**
**FOR THE YEAR ENDED 30 SEPTEMBER 2007**
**GROUP BALANCE SHEET**

| | 2007 | 2006 |
|---|---|---|
| | £'000 | £'000 |
| **ASSETS** | | |
| **Non-current assets** | | |
| Property, plant and equipment | **8,456** | 8,484 |
| Intangible assets | **455** | 581 |
| Post-employment benefits | **70** | - |
| Interest in joint ventures | **2,613** | - |
| Deferred tax assets | **-** | 693 |
| Redeemable loan notes receivable | **1,350** | - |
| | **12,944** | 9,758 |
| **Current assets** | | |
| Inventories | **16,238** | 13,958 |
| Trade and other receivables | **6,785** | 6,389 |
| Corporation tax receivable | **52** | 118 |
| | **23,075** | 20,465 |
| **Total assets** | **36,019** | 30,223 |
| **LIABILITIES** | | |
| **Current liabilities** | | |
| Bank loans and overdrafts | **(8,382)** | (2,710) |
| Trade and other payables | **(4,412)** | (3,790) |
| Corporation tax payable | **(37)** | (329) |
| | **(12,831)** | (6,829) |
| **Net current assets** | **10,244** | 13,636 |
| **Non-current liabilities** | | |
| Bank loans | **(1,642)** | (1,927) |
| Post-employment benefits | **-** | (3,090) |
| Deferred tax liabilities | **(474)** | (236) |
| Redeemable loan notes payable | **(675)** | - |
| | **(2,791)** | (5,253) |
| **Total liabilities** | **(15,622)** | (12,082) |
| **Net assets** | **20,397** | 18,141 |
| **SHAREHOLDERS' EQUITY** | | |
| Called up share capital | **1,048** | 1,029 |
| Share premium account | **2,757** | 2,143 |
| Own shares in share trust | **(743)** | (546) |
| Employee share option reserve | **29** | 34 |
| Foreign exchange reserve | **(1,501)** | (992) |
| Retained earnings | **18,807** | 16,473 |
| **Shareholders' Equity** | **20,397** | 18,141 |

**TREATT PLC**
**PRELIMINARY STATEMENT**
**FOR THE YEAR ENDED 30 SEPTEMBER 2007**
**GROUP CASH FLOW STATEMENT**

| | 2007 £'000 | 2006 £'000 |
|---|---|---|
| **Cash flow from operating activities** | | |
| Profit before taxation | **2,828** | 3,288 |
| Adjusted for: | | |
| Foreign exchange gain | **(373)** | (210) |
| Depreciation of property, plant and equipment | **733** | 685 |
| Amortisation of intangible assets | **176** | 182 |
| Loss on disposal of property, plant and equipment | **3** | 52 |
| Loss on disposal of intangible assets | **-** | 2 |
| Net interest payable | **512** | 235 |
| Share-based payments | **21** | 23 |
| Share of results of joint ventures | **70** | - |
| Decrease in post-employment benefit obligation excluding special contribution | **(225)** | (73) |
| **Operating cash flow before movements in working capital and special post-employment benefit contribution** | **3,745** | 4,184 |
| Special post-employment benefit contribution | **(1,035)** | (465) |
| Changes in working capital: | | |
| Increase in inventories | **(2,280)** | (2,563) |
| Increase in trade and other receivables | **(395)** | (671) |
| Increase/(decrease) in trade and other payables | **622** | (144) |
| **Cash generated from operations** | **657** | 341 |
| Taxation (paid)/received | **(628)** | (1,153) |
| **Net cash from operating activities** | **29** | (812) |
| **Cash flow from investing activities** | | |
| Acquisition of investments in joint ventures | **(1,375)** | - |
| Purchase of property, plant and equipment | **(1,017)** | (775) |
| Purchase of intangible assets | **(50)** | (41) |
| Purchase of redeemable loan notes | **(1,350)** | - |
| Interest receivable | **60** | 218 |
| | **(3,732)** | (598) |
| **Cash flow from financing activities** | | |
| Repayment of bank loans | **(125)** | (137) |
| Interest payable | **(572)** | (453) |
| Dividends paid | **(1,053)** | (949) |
| Net sale/(purchase) of own shares by share trust | **(231)** | 79 |
| | **(1,981)** | (1,460) |
| Net decrease in cash and cash equivalents | **(5,684)** | (2,870) |
| Cash and cash equivalents at beginning of period | **(2,573)** | 297 |
| **Cash and cash equivalents at end of period** | **(8,257)** | (2,573) |
| **Cash and cash equivalents comprise:** | | |
| Cash and cash equivalents | **-** | - |
| Bank overdrafts | **(8,257)** | (2,573) |
| | **(8,257)** | (2,573) |

**TREATT PLC**
**PRELIMINARY STATEMENT**
**FOR THE YEAR ENDED 30 SEPTEMBER 2007**
**GROUP RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET DEBT**

| | **2007** **£'000** | 2006 £'000 |
|---|---|---|
| Decrease in cash and cash equivalents | **(5,684)** | **(2,870)** |
| Repayment of borrowings | **125** | **137** |
| Cash outflow from change in net debt in the period | **(5,559)** | **(2,733)** |
| Effect of foreign exchange rates | **172** | **122** |
| Movement in net debt in the period | **(5,387)** | **(2,611)** |
| Net debt at start of the period | **(4,637)** | **(2,026)** |
| **Net debt at end of the period** | **(10,024)** | **(4,637)** |

**TREATT PLC**
**PRELIMINARY STATEMENT**
**FOR THE YEAR ENDED 30 SEPTEMBER 2007**
**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 2007 and 2006 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 Group's audited financial 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.

The financial information contained within this preliminary statement was approved and authorised for issue by the Board on 7 December 2007.

## 2. Accounting policies

These financial statements have been prepared in accordance with the accounting policies set out in the full financial statements for the period ending 30 September 2006 other than as follows:

***Interests in joint ventures***

The results, assets and liabilities of a jointly controlled entity are incorporated in these financial statements using the equity method of accounting. Under the equity method, the investment in a jointly controlled entity is carried in the balance sheet at cost plus post-acquisition changes in the Group's share of net assets of the jointly controlled entity, less distributions received and less any impairment in value of the investment. The Group income statement reflects the Group's share of the results after tax of the jointly controlled entity. The Group statement of recognised income and expense reflects the Group's share of any income and expense recognised by the jointly controlled entity outside profit and loss.

## 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:

| | **2007** | **2006** |
|---|---|---|
| | **£'000** | **£'000** |
| **Revenue by destination** | | |
| United Kingdom | **6,576** | 6,460 |
| Rest of Europe | **11,694** | 10,542 |
| The Americas | **10,263** | 10,142 |
| Rest of the World | **9,533** | 8,267 |
| | **38,066** | 35,411 |

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

## 4. Taxation

| | **2007** | 2006 |
|---|---|---|
| | **£'000** | £'000 |
| **Analysis of tax charge for the year** | | |
| **Current tax:** | | |
| UK Corporation tax on UK profits for period | **300** | 655 |
| Adjustments to UK tax in respect of previous periods | **13** | 10 |
| US federal and state tax on US profits for the period | **70** | 133 |
| Adjustments to US tax in respect of previous periods | **-** | (36) |
| Total current tax | **383** | 762 |
| **Deferred tax:** | | |
| Origination and reversal of timing differences | **382** | 194 |
| Effect of reduced tax rate on opening asset or liability | **46** | - |
| Adjustments in respect of previous periods | **(10)** | - |
| Total deferred tax | **418** | 194 |
| Tax on profit on ordinary activities | **801** | 956 |

Deferred tax of £532,000 (2006: £117,000) was charged to equity in respect of post-employment benefit obligations.

## 5. Dividends

| | **2007** | 2006 |
|---|---|---|
| | **£'000** | £'000 |
| **Equity dividends on ordinary shares:** | | |
| Interim dividend for year ended 30 September 2006 – 3.4p per share | **341** | |
| Final dividend for year ended 30 September 2006 – 7.1p per share | **712** | |
| 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 |
| | **1,053** | 949 |

The declared interim dividend for the year ended 30 September 2007 of 3.5 pence was approved by the Board on 18 May 2007 and was paid on 1 October 2007. Accordingly it has not been included as a deduction from equity at 30 September 2007. The proposed final dividend for the year ended 30 September 2007 of 7.3 pence will be voted on at the Annual General Meeting on 18 February 2008. Both dividends will therefore be accounted for in the results for the year ended 30 September 2008.

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

## 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 10,136,986 (2006: 9,998,572) and earnings of £2,027,429 (2006: £2,332,000), 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 10,174,314 (2006: 10,049,544), and the same earnings as above.