Treatt PLC - TET
Half-year Report
Released 07:00 07-May-2019

RNS Number: 1021Y
Treatt PLC
07 May 2019

TREATT PLC
HALF YEAR RESULTS
SIX MONTHS ENDED 31 MARCH 2019

Fruit and vegetables, tea and sugar reduction driving top-line growth

Treatt Plc (the 'Group'), the manufacturer and supplier of innovative ingredient solutions for the flavour, fragrance, beverage and consumer products industries, announces its half year results for the six months ended 31 March 2019.

FINANCIAL HIGHLIGHTS:

	Half year ended 31 March 2019	Half year ended 31 March 2018	Change
Revenue[1]	**£56.6m**	£53.6m	+5.7%
Gross profit margin[1]	**25.0%**	23.6%	+140bps
Adjusted operating profit[1,2]	**£6.3m**	£6.1m	+3.8%
Adjusted profit before tax[1,2]	**£6.2m**	£5.8m	+7.3%
Adjusted basic earnings per share[1,2]	**8.35p**	8.58p	-2.7%
Dividend per share	**1.70p**	1.60p	+6.3%

OPERATIONAL HIGHLIGHTS:

- Fruit and vegetables, tea and sugar reduction categories have performed strongly.
- Citrus core product category continues to lead the contribution to revenue despite cyclical fall in raw material prices.
- Speciality chemicals outperformed management expectations at the half year.
- Strong free cash inflow of £5.5m excluding major capital investment projects.
- Ongoing investment in the Group's capacity to deliver long-term growth
  - US expansion: completed March 2019, expected to be fully operational by June 2019.
  - UK site relocation: 12-month construction period anticipated to commence Summer 2019.

Commenting on the results, Group CEO, Daemmon Reeve, said:

"Once again it is pleasing to report encouraging strategic progress. All categories have performed well despite cyclical weakness in some citrus raw material markets with particularly encouraging growth in our higher margin tea, sugar reduction and fruit and vegetable categories supporting the strong trend towards better for you and clean label, more natural beverages.

The past six months have seen much work across the business strengthening our teams, building and planning infrastructure to drive future growth, establishing Treatt in new growth markets and expanding our offer in established markets. These actions were achieved whilst improving profitability and margins and give the Board confidence that the business is well placed to deliver on its strategic objectives over the coming years.

With order books comfortably up on a year ago, we expect the encouraging performance in H1 to continue into H2. Whilst there is still much to do to complete the year the Board remains confident that the Group will meet its expectations for the financial year ending 30 September 2019."

Notes:
[1] All figures are shown excluding discontinued operations – see note 9 to the financial statements below.
[2] All adjusted measures exclude exceptional costs of £0.2m (2018: £0.2m) – see note 7 to the financial statements below.

Enquiries:

Treatt plc	**+44 (0)1284 702500**
Daemmon Reeve	Chief Executive Officer

Richard Hope	Chief Financial Officer

Brokers
Investec Bank Plc
Patrick Robb +44 (0)20 7597 5970
David Anderson
Alex Wright

Public relations
DRD Partnership
Lawrence Dore +44 (0)20 3865 5971

HALF YEAR RESULTS STATEMENT

Introduction

The Group has delivered a solid set of results for the half year ended 31 March 2019 (the "Period") and remains on course to deliver in line with management's expectations for the full financial year.

The past six months have seen much work across the business strengthening our teams, building and planning infrastructure to drive future growth, establishing Treatt in new growth markets and expanding our offer in established markets. These actions were achieved whilst improving profitability and margins and give the Board confidence that the business is well placed to deliver on its strategic objectives over the coming years.

We have continued to make good progress in winning market share in our largest market, being innovative beverage ingredients solutions. The pace of change in consumer tastes, and the innovation which is supporting this change, is opening up some encouraging opportunities where Treatt's agile, technical-led selling approach is reaping dividends in these higher margin categories.

Strategic focus

Although citrus remains the largest product category, our continued strategic focus on key product categories and the increasing consumer demand for natural and clean-label products have resulted in encouraging profitable growth and opportunity across our wider portfolio. During the Period the Group's fruit and vegetable, tea and sugar reduction categories performed above expectations as set out below.

Tea

Our authentic and natural tea solutions continue to perform well with some notable wins in the Period. This has resulted in our tea category revenue growing by 20.3% compared to H1 2018. In the next few years we expect demand for iced tea, particularly in North America, to continue to grow and, therefore, we believe that our timely investment in expanded capacity will enable us to support further growth in this category.

Sugar Reduction

As demand for lower calorie beverages continues to take hold, particularly in countries such as the UK where a sugar tax has been implemented, our natural calorie-free sugar solutions continue to gain traction delivering revenue growth of 37.7% compared to H1 2018. Treatt plays a niche and technically specialist role in the scientifically complex sphere of sugar reduction, where our products reproduce the flavour and aroma of sugar, without the carbohydrates or calories. Similar to tea, our growth in sugar reduction going forward will be supported by the new capital investment in the US.

Citrus

Whilst cyclical price weakness in some raw materials in the citrus category had an impact on revenue, a favourable product mix led to increased profits in this key category. Consequently, profits from citrus increased by 6.1% even though revenue fell by 2.1% in the Period. We expect this market trend to continue into the second half of the current financial year impacting citrus revenue accordingly.

Other

The fastest-growing area of our business in the Period was our natural fruit and vegetable category which grew an impressive 64.3%. Within this category, cucumber and watermelon were particularly strong with a number of new business wins, and the full year effect of wins in the preceding financial year driving growth. This category particularly illustrates Treatt's ability to capitalise on the level of product innovation and the variety and choice now appearing in supermarket beverage aisles.

Sales of speciality high impact flavour chemicals outperformed our expectations in the Period with revenue increasing by 17.7% compared to H1 2018. Competitor consolidation and a transition to outsourcing by some customers has boosted growth opportunities in this category for the Group.

Herb, spice and florals, which covers a wide range of natural non-citrus ingredients, continued to perform steadily in the Period, with revenue up 5.3% compared to H1 2018.

Geographical markets

The Group's strategic focus on the key geographical markets of the US, China and India continues to progress well. Revenue in the US market, which is being driven by the premium beverage market, represented 38.1% of Group revenue in the Period and achieved growth of 8.4% against the comparable prior period (3.2% in constant currency[1]). Revenue in China grew by 8.6% (7.8% in constant currency[1]) as our strategy in China continues to gain traction and sizeable opportunities with new customers begin to open up. In India we are at a much earlier stage of development as our strategy in this market continues to evolve. Whilst revenue in the Period fell slightly due to a reduction in some existing low margin business, we remain confident that our revenue in India will grow materially over the next few years.

Capital Investment Programme

A key element of the Group's five-year strategy to 2022 is to invest in our operational capacity and innovative capability in order to deliver future long-term growth. We are pleased, therefore, to confirm that the $14m expansion of our US facility was completed in March 2019 as planned and is expected to become fully operational in June this year. This expansion brings on line significant additional capacity for non-citrus categories, including our fast-growing tea and sugar reduction categories, and expands as well as modernises our scientific infrastructure. This project has been managed without disruption to the high standards of quality and service our global client base demands and its success is testament to the hard work and commitment of our US colleagues.

In the UK, the site relocation project is progressing with planning consent now granted and construction of our new £35m facility is expected to commence this Summer, with occupancy to begin in Summer 2020. We are confident that bringing all UK employees together in one building will enhance and drive further teamwork, innovation, product development and process efficiencies, whilst providing a step-change in capacity.

Financial review

Continuing operations

Revenue from continuing operations for the Period grew by 5.7% to £56.6m (2018 H1: £53.6m) resulting in adjusted profit before tax (excluding exceptional cost of £0.2m; 2018 H1: £0.2m) growing by 7.3% to £6.2m (2018 H1: £5.8m). In constant currency terms, revenue grew by 3.4%[1].

Gross margin increased by 140 bps to 25.0% during the Period as a result of the growth in higher margin product categories, together with the fact that citrus margins increased as profits in this category grew whilst revenue fell. Operating costs during the Period increased to £7.8m (2018 H1: £6.6m) due to the full year effect of investment in headcount in 2018, particularly in senior sales and technical roles, and some further headcount increases in 2019 as we continue to expand our operations and capacity in both the UK and US. This resulted in net operating margins remaining consistent at 11.1% (2018 H1: 11.3%).

The effect on profit before tax of movements in foreign exchange rates in the Period was not material with a small adverse net FX impact on the half year results of approximately £0.4m (2018 H1: £0.2m adverse).

Consistent with the prior period, the current year exceptional costs of £0.2m relate to accelerated depreciation charges on the current UK site and one-off costs in respect of the site relocation, which do not fall to be capitalised.

In spite of a £0.2m increase in adjusted earnings after tax from continuing operations against the comparable prior period, as a result of the 10% share placing in December 2017 to part-fund the Group's capital investment programme and a higher corporate tax rate due to changes in US taxation, basic adjusted earnings per share fell by 2.7% to 8.35p (2018: 8.58p).

Following the three-year actuarial review of the UK final salary pension scheme (the 'Scheme') as at 1 October 2018, which was updated at 30 September 2018, the Scheme continues to be in actuarial surplus and the Group is, therefore, not required to make any contributions to the Scheme. Under the accounting standard IAS 19, which is calculated on a different basis, the post-employment benefits liability in the balance sheet increased from £3.5m to £6.4m in the Period as a result of movements in discount rates used to calculate the future obligations of the Scheme.

The Group is required to adopt IFRS 15 (Revenue from Contracts with Customers) and IFRS 9 (Financial Instruments) from 1 October 2018. The adoption of IFRS 15 and application of IFRS 9 had no impact on the Group's financial statements. Further details are set out in note 13 to the financial statements below.

Cash flow

As at 31 March 2019 the Group had a positive cash balance of £9.4m compared to £10.1m at the beginning of the Period. During the Period £4.9m of capital expenditure was incurred, £4.2m of which related to the US site expansion and UK relocation projects.

The first half of our financial year has seen an improvement in cash conversion with free cash inflow[2] of £1.3m for the Period comparing favourably with the £1.8m outflow in H1 2018. Working capital in the Period improved by £1.7m, with inventory levels reducing by £2.1m in the Period. The level of trade and other receivables increased by £1.8m as H1 finished strongly, whilst trade and other payables increased slightly by £0.6m. Excluding the two major capital investment projects, free cash inflow[2] was an encouraging £5.5m for the Period and we anticipate further improvement in H2.

Of the $7.5m approved US construction financing facility, $5.6m had been drawn down at the Period end to fund the now completed expansion of the site. This facility is expected to be converted to a seven-year term loan during H2.

Discontinued operations

Following the disposal of Earthoil Plantations Limited in the previous financial year the Group retained the former Earthoil operations based in Kenya. 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 and recognised a non-cash impairment charge of £0.8m. This impairment is reflected in the profit after tax from continuing and discontinued operations of £3.7m (2018 H1: £5.1m) and basic earnings per share of 6.31p (2018 H1: 9.27p).

Dividend

Consistent with our interim dividend policy in prior years, the Board has declared an increase to the interim dividend of 6.3% to 1.70 pence per share (2018 interim dividend: 1.60 pence per share) which represents approximately one-third of the previous year's total dividend. This interim dividend will be payable on 15 August 2019 to all shareholders on the register at close of business on 5 July 2019.

Board Changes

As previously announced, Anita Haines retired from the Board on 25 January 2019. Having served on the Board since 2002, and as a Non-executive Director since 2014, Anita has made an invaluable contribution to the business as Treatt has grown substantially since she began her service with the Group in 1988. The Board would like to place on record its thanks to Anita and to wish her a happy, healthy and well-deserved retirement.

On 20 March 2019 Yetunde Hofmann joined the Board as a Non-executive Director. Yetunde has worked extensively across many Asian countries, the US and Europe with strategic, commercial and operational transformation skills developed through her experience at Allied Domecq, Unilever, Imperial Brands and Northern Foods.

Also joining the Board as a Non-executive Director is Lynne Weedall who joined us on 6 April 2019. Lynne is a director with significant strategy, change management, remuneration and acquisition experience from posts including Whitbread Plc, Dixons Carphone Plc, Selfridges Group and Greene King Plc.

Prospects

Order books are comfortably up on a year ago and we expect the encouraging performance in H1 to continue into H2. Though it is anticipated that revenue growth in the second half will reflect lower citrus raw material input prices, the strength of the Group's underlying business, with notable growth in key strategic categories and active projects from existing and targeted potential customers, gives us encouragement for the second half of the year.

Whilst there is still much to do to complete the year the Board remains confident that the Group will meet its expectations for the financial year ending 30 September 2019.

6 May 2019

1 Constant currency revenue growth is calculated on the movement from prior period comparative restated at the current period average exchange rate.
2 Free cash flow is calculated as net cash from operations less purchase of property, plant, equipment and intangible assets.

TREATT PLC
HALF YEAR FINANCIAL STATEMENTS
CONDENSED GROUP INCOME STATEMENT
for the six months ended 31 March 2019

	Notes	**Six months to 31 March 2019 (unaudited) £'000**	Six months to 31 March 2018 (unaudited) £'000
CONTINUING OPERATIONS			
Revenue	6	**56,625**	53,574
Cost of sales		**(42,482)**	(40,938)
Gross profit		**14,143**	12,636
Administrative expenses		**(7,832)**	(6,557)
Operating profit[1]		**6,311**	6,079
Net finance costs		**(128)**	(314)
Profit before taxation and exceptional items		**6,183**	5,765
Exceptional items	7	**(245)**	(212)
Profit before taxation		**5,938**	5,553
Taxation	8	**(1,206)**	(962)
Profit for the period from continuing operations		**4,732**	4,591
DISCONTINUED OPERATIONS			
(Loss)/profit for the period from discontinued operations	9	**(1,007)**	557

Profit for the period attributable to owners of the Parent Company		**3,725**	5,148
Earnings per share			
From continuing and discontinued operations:			
Basic	11	**6.31p**	9.27p
Diluted	11	**6.24p**	9.01p
Adjusted basic[2]	11	**8.04p**	9.58p
Adjusted diluted[2]	11	**7.94p**	9.32p
From continuing operations:			
Basic	11	**8.01p**	8.27p
Diluted	11	**7.91p**	8.04p
Adjusted basic[2]	11	**8.35p**	8.58p
Adjusted diluted[2]	11	**8.24p**	8.34p

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

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

The notes form part of these condensed half year financial statements

CONDENSED GROUP STATEMENT OF COMPREHENSIVE INCOME

for the six months ended 31 March 2019

	Six months to 31 March 2019 (unaudited) £'000	Six months to 31 March 2018 (unaudited) £'000
Profit for the period attributable to owners of the Parent Company	**3,725**	5,148
Items that may be reclassified subsequently to profit or loss:		
Currency translation differences on foreign currency net investments	**(8)**	(1,183)
Current tax on foreign currency translation differences	**(1)**	37
Fair value movement on cash flow hedges	**274**	51
Deferred tax on fair value movement	**(47)**	(47)
	218	(1,142)
Items that will not be reclassified subsequently to profit or loss:		
Actuarial loss on defined benefit pension scheme	**(2,898)**	(950)
Deferred tax on actuarial gain or loss	**493**	162
	(2,405)	(788)
Other comprehensive expense for the period	**(2,187)**	(1,930)
Total comprehensive income for the period attributable to owners of the Parent Company	**1,538**	3,218

The notes form part of these condensed half year financial statements

CONDENSED GROUP STATEMENT OF CHANGES IN EQUITY

for the six months ended 31 March 2018

	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**
Net profit for the period	-	-	-	-	-	5,148	**5,148**
Exchange differences	-	-	-	-	(1,183)	-	**(1,183)**
Fair value movement on cash flow hedges	-	-	-	51	-	-	**51**
Actuarial loss on defined benefit pension scheme	-	-	-	-	-	(950)	**(950)**
Transfer between reserves	-	-	-	227	-	(227)	**-**
Taxation relating to items above	-	-	-	(47)	37	162	**152**
Total comprehensive income	-	-	-	231	(1,146)	4,133	**3,218**
Transactions with owners:							
Dividends	-	-	-	-	-	(1,939)	**(1,939)**
Share-based payments	-	-	-	-	-	529	**529**
Movement in own shares in share trusts	-	-	32	-	-	-	**32**
Gain on release of shares in share trusts	-	-	-	-	-	196	**196**
Issue of share capital	115	20,757	(10)	-	-	-	**20,832**
Taxation relating to items recognised directly in equity	-	-	-	-	-	40	**40**
Total transactions with owners	115	20,727	22	-	-	(1,174)	**19,690**
As at 31 March 2018	1,173	23,484	(153)	151	1,481	43,250	**69,386**

for the six months ended 31 March 2019

	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**
As at 1 October 2018	1,189	23,484	(34)	50	3,515	53,421	81,625
Net profit for the period						3,725	**3,725**
Exchange differences	-	-	-	-	(8)	-	**(8)**
Fair value movement on cash flow hedges	-	-	-	274	-	-	**274**
Actuarial loss on defined benefit pension scheme	-	-	-	-	-	(2,898)	**(2,898)**
Taxation relating to items above	-	-	-	(47)	(1)	493	**445**
Total comprehensive income	-	-	-	227	(9)	1,320	**1,538**
Transactions with owners:							
Dividends	-	-	-	-	-	(2,071)	**(2,071)**
Share-based payments	-	-	-	-	-	361	**361**
Movement in own shares in share trusts	-	-	22	-	-	-	**22**
Gain on release of shares in share trusts	-	-	-	-	-	173	**173**
Total transactions with owners	-	-	22	-	-	(1,537)	**(1,515)**
As at 31 March 2019	**1,189**	**23,484**	**(12)**	**277**	**3,506**	**53,204**	**81,648**

The notes form part of these condensed half year financial statements

CONDENSED GROUP BALANCE SHEET

as at 31 March 2019

	As at 31 March 2019 (unaudited) £'000	As at 30 September 2018 (audited) £'000
ASSETS		
Non-current assets		
Intangible assets	**720**	752
Property, plant and equipment	**23,583**	20,038
Deferred tax assets	**1,511**	1,073
	25,814	21,863
Current assets		
Inventories	**37,573**	39,642
Trade and other receivables	**30,662**	28,829
Current tax assets	**840**	29
Derivative financial instruments	**324**	-
Cash and bank balances	**34,451**	32,304
Assets classified as held for sale	**436**	1,598
	104,286	102,402
Total assets	**130,100**	124,265
LIABILITIES		
Current liabilities		
Borrowings	**(20,795)**	(19,244)
Provisions	**-**	(58)
Trade and other payables	**(15,906)**	(15,298)
Current tax liabilities	**(671)**	(760)
Derivative financial instruments	**-**	(401)
Liabilities classified as held for sale	**(10)**	(20)
	(37,382)	(35,781)
Net current assets	**66,904**	66,621
Non-current liabilities		
Borrowings	**(4,266)**	(3,001)
Post-employment benefits	**(6,404)**	(3,457)
Deferred tax liabilities	**(400)**	(401)
	(11,070)	(6,859)
Total liabilities	**(48,452)**	(42,640)
Net assets	**81,648**	81,625

CONDENSED GROUP BALANCE SHEET (continued)

as at 31 March 2019

	As at 31 March	As at 30 September

	2019 (unaudited) £'000	2018 (audited) £'000
EQUITY		
Share capital	**1,189**	1,189
Share premium account	**23,484**	23,484
Own shares in share trusts	**(12)**	(34)
Hedging reserve	**277**	50
Foreign exchange reserve	**3,506**	3,515
Retained earnings	**53,204**	53,421
Total equity attributable to owners of the Parent Company	**81,648**	81,625

The notes form part of these condensed half year financial statements

CONDENSED GROUP STATEMENT OF CASH FLOWS

for the six months ended 31 March 2019

	Six months to 31 March 2019 (unaudited) £'000	Six months to 31 March 2018 (unaudited) £'000
Cash flow from operating activities		
Profit before taxation including discontinued operations	**4,924**	6,218
Adjusted for:		
Depreciation of property, plant and equipment	**760**	758
Amortisation of intangible assets	**47**	68
Loss on disposal of intangible assets	**-**	31
Net finance costs	**128**	344
Impairment of Kenyan operations	**825**	-
Share-based payments	**361**	547
(Increase)/decrease in fair value of derivatives	**(450)**	137
Increase in post-employment benefit obligations	**49**	57
Operating cash flow before movements in working capital	**6,644**	8,160
Movements in working capital:		
Decrease/(increase) in inventories	**2,303**	(1,520)
Increase in trade and other receivables	**(1,740)**	(7,374)
Increase in trade and other payables, and provisions	**1,170**	2,157
Cash generated from operations	**8,377**	1,423
Taxation paid	**(2,106)**	(892)
Net cash from operating activities	**6,271**	531
Cash flow from investing activities		
Purchase of property, plant and equipment	**(4,921)**	(2,256)
Purchase of intangible assets	**(16)**	(114)
Interest received	**57**	8
	(4,880)	(2,362)

CONDENSED GROUP STATEMENT OF CASH FLOWS (continued)
for the six months ended 31 March 2019

	Six months to 31 March 2019 (unaudited) £'000	Six months to 31 March 2018 (unaudited) £'000
Cash flow from financing activities		
Increase/(repayment) of bank loans	**4,274**	(9,729)
Settlement of financial derivatives	**-**	(227)
Interest paid	**(185)**	(352)
Dividends paid	**(2,071)**	(1,939)
Proceeds on issue of shares	**-**	20,833
Net sale of own shares by share trusts	**196**	229
	2,214	8,815
Net increase in cash and cash equivalents	**3,605**	6,984
Effect of foreign exchange rates	**(24)**	(28)
Movement in cash and cash equivalents in the period	**3,581**	6,956
Cash and cash equivalents at beginning of period	**13,060**	280
Cash and cash equivalents at end of period	**16,641**	7,236
Cash and cash equivalents comprise:		
Cash and bank balances	**34,451**	20,442
Bank borrowings	**(17,810)**	(13,206)
	16,641	7,236

The notes form part of these condensed half year financial statements

CONDENSED GROUP RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET CASH
for the six months ended 31 March 2019

	Six months to 31 March 2019 (unaudited) £'000	Six months to 31 March 2018 (unaudited) £'000
Movement in cash and cash equivalents in the period	**3,581**	6,956
(Increase)/repayment of bank loans	**(4,274)**	9,729
Cash (outflow)/inflow from changes in net cash in the period	**(693)**	16,685
Effect of foreign exchange rates	**24**	34
Movement in net cash in the period	**(669)**	16,719
Net cash/(debt) at beginning of period	**10,059**	(10,225)
Net cash at end of period	**9,390**	6,494

The notes form part of these condensed half year financial statements

Responsibility statement

We confirm that to the best of our knowledge:

(a) the condensed set of financial statements for the six months ended 31 March 2019 has been prepared in accordance with IAS 34

(b) the half year report and condensed financial statements includes a fair review of the information required by DTR 4.2.7R (indication of important events during the first six months and description of principal risks and uncertainties for the remaining six months of the year)

(c) the half year report and condensed financial statements includes a fair review of the information required by DTR 4.2.8R (disclosure of related party transactions and changes therein).

By order of the Board

RICHARD HOPE
Chief Financial Officer
6 May 2019

NOTES TO THE UNAUDITED HALF YEAR FINANCIAL STATEMENTS

1. Basis of preparation

The Group is required to prepare its condensed half year financial statements in accordance with accounting standards adopted for use in the European Union (International Financial Reporting Standards (IFRS)). The Group has adopted the reporting requirements of IAS 34 'Interim Financial Reporting'.

The consolidated condensed half year financial statements are prepared on the basis of all International Accounting Standards (IAS) and IFRS published by the International Accounting Standards Board (IASB) that are currently in issue. New interpretations may be issued by the International Financial Reporting Interpretations Committee (IFRIC) on existing standards and best practice continues to evolve. It is, therefore, possible that the accounting policies set out below may be updated by the time the Group prepares its full set of financial statements under IFRS for the year ending 30 September 2019.

The information relating to the six months ended 31 March 2019 and 31 March 2018 is unaudited and does not constitute statutory accounts. The statutory accounts for the year ended 30 September 2018 have been reported on by the Group's auditors and delivered to the Registrar of Companies. The report of the auditors was unqualified, did not include a reference to any matters to which the auditors drew attention by way of emphasis without qualifying their report and did not contain a statement under section 498 of the Companies Act 2006. These condensed half year financial statements for the six months ended 31 March 2019 have neither been audited nor formally reviewed by the Group's auditors.

2. Accounting policies

The Group has adopted the amendments to IFRS 9 'Financial Instruments' and IFRS 15 'Revenue from Contracts with Customers' with effect from 1 October 2018 as detailed in note 13. 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 ending 30 September 2019. The adoption of these amended accounting standards has not had a material effect on these condensed half year financial statements.

With the exception of amendments to IFRS 9 and IFRS 15, these condensed half year financial statements have been prepared on the basis of the same accounting policies and presentation set out in the Group's 30 September 2018 annual report.

3. Accounting estimates

The preparation of the condensed half year financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expenses. In preparing these condensed half year financial statements, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those applied to the audited consolidated financial statements as at, and for the year ended, 30 September 2018.

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. Accordingly, the condensed half year financial statements have 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 remaining six months of this financial year (for example, causing actual results to differ materially from expected results or from those experienced previously) are the same as those detailed on pages 26-31 of the 2018 Annual Report and Financial Statements.

6. Segmental information

Business segments

IFRS 8 requires operating segments to be identified on the basis of internal financial information reported to the Chief Operating Decision Maker (CODM). The Group's CODM has been identified as the Board of Directors who are primarily responsible for the allocation of resources to the segments and for assessing their performance. The disclosure in the Group accounts of segmental information is consistent with the information used by the CODM in order to assess profit performance from the Group's operations. The Group operates one global business segment engaging in the manufacture and supply of innovative ingredient solutions for the flavour, fragrance, beverage and consumer product industries with manufacturing sites in the UK and US. 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 for continuing operations.

		Six months to 31 March 2019 (unaudited) £'000	Six months to 31 March 2018 (unaudited) £'000	**Year on Year Growth (unaudited) %**	**Year on Year Growth - constant currency (unaudited) %**
United Kingdom		**4,221**	5,371	**(21.4%)**	**(21.5%)**
Rest of Europe	**- Germany**	**3,604**	3,459	**4.2%**	**3.8%**
	- Ireland	**4,096**	3,252	**26.0%**	**24.2%**
	- Other	**7,641**	5,623	**35.9%**	**35.1%**
The Americas	**- USA**	**21,548**	19,884	**8.4%**	**3.2%**
	- Other	**3,489**	3,647	**(4.3%)**	**(6.2%)**
Rest of the World	**- China**	**3,285**	3,026	**8.6%**	**7.8%**
	- Other	**8,741**	9,312	**(6.1%)**	**(6.5%)**
		56,625	53,574	**5.7%**	**3.4%**

7. Exceptional items

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

	Six months to 31 March 2019 (unaudited) £'000	Six months to 31 March 2018 (unaudited) £'000
Accelerated depreciation expense	**108**	108
UK relocation expenses	**137**	103
	245	212
Less: tax effect of exceptional items	**(46)**	(40)
	199	172

The exceptional items all relate to non-recurring items. The accelerated depreciation is in relation to the reduction in the estimated useful lives of UK assets which will not transition to the new UK site. Relocation expenses relate to one-off costs incurred in connection with the relocation of the Group's UK operations, which is expected to be completed in Summer 2020.

8. Taxation

The effective tax rate for the six months ended 31 March 2019 has been estimated at 20.3% (2018 H1: 17.3%). The prior year included a one-off deferred tax credit of £339,000 as a result of the reduction in the main rate of US corporation tax. Excluding this credit, the effective group rate for the six months ended 31 March 2018 was 23.4%. The reduced rate of US corporation tax has been applicable for the full period for the first time resulting in a reduction in the effective tax rate on a like-for-like basis.

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.

As a result of the losses incurred during the Period, management has assessed the carrying value of the disposal group and recognised an impairment of £825,000 in the Income Statement. This impairment is reflected in the Earnings per Share from continuing and discontinued operations in note 11.

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

	Six months to 31 March 2019 (unaudited) £'000	Six months to 31 March 2018 (unaudited) £'000
Revenue	**852**	4,049
Cost of sales	**(1,041)**	(3,121)
Gross (loss)/profit	**(189)**	928
Administrative expenses	**-**	(233)
Operating (loss)/profit	**(189)**	695
Net finance costs	**-**	(30)
(Loss)/profit before taxation and exceptionals	**(189)**	665
Exceptional – Impairment of disposal group	**(825)**	-
(Loss)/profit before taxation	**(1,014)**	665
Taxation	**7**	(108)
(Loss)/profit for the period attributable to owners of the Parent Company	**(1,007)**	557

10. Dividends

Equity dividends on ordinary shares:

	Six months to 31 March 2019 (unaudited) £'000	Six months to 31 March 2018 (unaudited) £'000
Final dividend for the year ended 30 September 2018 of 3.50p per share (2017: 3.35p per share)	**2,071**	1,939

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) which do not rank for dividend.

	Six months to 31 March 2019 (unaudited)	Six months to 31 March 2018 (unaudited)
Profit after taxation attributable to owners of the Parent Company (£'000)	**3,725**	5,148
Loss/(profit) from discontinued operations (£'000)	**1,007**	(557)
Profit from continuing operations attributable to owners of the Parent Company (£'000)	**4,732**	4,591
Weighted average number of ordinary shares in issue (No: '000)	**59,065**	55,545
Basic earnings per share – continuing and discontinued (pence)	**6.31p**	9.27p
Basic earnings per share – continuing (pence)	**8.01p**	8.27p

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:

	Six months to 31 March 2019 (unaudited) No ('000)	Six months to 31 March 2018 (unaudited) No ('000)
Weighted average number of shares	**59,471**	56,168
Weighted average number of shares held in the EBT and SIP	**(406)**	(623)
Weighted average number of shares for calculating basic EPS	**59,065**	55,545
Executive share option schemes	**589**	1,261
All-employee share options	**157**	306
Weighted average number of shares for calculating diluted EPS	**59,811**	57,112
Diluted earnings per share – continuing and discontinued (pence)	**6.23p**	9.01p
Diluted earnings per share – continuing (pence)	**7.91p**	8.04p

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:

	Six months to 31 March 2019 (unaudited) £'000	Six months to 31 March 2018 (unaudited) £'000
Profit after taxation attributable to owners of the Parent Company	**3,725**	5,148
Adjusted for:		
Exceptional items (see note 7)	**245**	212
Impairment of Kenyan operations (see note 9)	**825**	-
Taxation thereon	**(46)**	(40)
Earnings for calculating adjusted earnings per share:		
From continuing and discontinued operations	**4,749**	5,320
Loss/(profit) from discontinued operations	**182**	(557)

Adjusted earnings from continuing operations	**4,931**	4,763
Adjusted basic earnings per share (pence)		
- Continuing and discontinued operations	**8.04p**	9.58p
- Continuing operations	**8.35p**	8.58p
Adjusted diluted earnings per share (pence)		
- Continuing and discontinued operations	**7.94p**	9.32p
- Continuing operations	**8.24p**	8.34p

12. Capital commitments

During the Period the Group entered into material contracts in connection with the US expansion and UK relocation projects totaling £4.9m, all of which was unprovided for at the Period end.

13. Adoption of new accounting standards

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 with a date of initial application of 1 October 2018.

Impact of the transition and application of IFRS 15

Management have considered the nature of contracts and performance obligations with customers at the date of initial application and determined that the Group only has 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 Group considers the satisfaction of a performance obligation and transfer of control to be at the point goods are despatched.

The Group's accounting policy is shown below and has been updated to clarify that revenue is recognised on the transfer of control as required under IFRS 15, rather than risks and rewards as stated in the old policy. The adoption of IFRS 15 has no impact on the Group's financial statements.

Revenue recognition accounting policy

Revenue represents amounts receivable net of trade discounts, VAT and other sales-related taxes. Revenue is recognised in these financial statements when goods are physically despatched from the Group and/or Parent Company's premises or other storage depots, irrespective of the terms of trade, as the Directors believe that this is the point at which control transfers to the customer in accordance with IFRS 15 "Revenue from Contracts with Customers".

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 is required to adopt IFRS 9 with a date of initial application of 1 October 2018.

Impact of the transition and application of IFRS 9

(1) Classification and measurement

With respect to the classification and measurement of financial assets, the number of categories of financial assets under IFRS 9 has been reduced compared to IAS 39. 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. 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.

The Group will classify its financial assets at initial recognition as those to be measured at amortised cost and those to be measured subsequently at fair value and will reclassify debt instruments only when its business model for managing those assets changes. Changes to the Group's accounting policy are in terminology only; at the half year all financial assets were measured at amortised cost. None of the changes to the classification and measurement of financial assets or liabilities have had any impact on the Group's financial statements.

(2) Impairment of financial assets

In relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model as opposed to an incurred credit loss model under IAS 39. IFRS 9 provides a simplified approach for measuring the loss allowance for trade receivables that result from transactions in the scope of IFRS 15 which do not contain a significant financing component.

Under IAS 39, the Group's policy was to recognise impairment only when there was objective evidence to do so. Under IFRS 9 the Group will assess on a forward-looking basis and will apply the simplified approach permitted by IFRS 9 to trade receivables. This change in accounting policy effectively leads to impairment being recognised at initial recognition. Given the low level of historic debts experienced by the Group, the application of IFRS 9 has not had a material impact on the Group's financial statements.

(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. Retrospective assessment of the hedge effectiveness is no longer required.

The Group has updated its hedge accounting policy and its hedge documentation to ensure that new hedging relationships are documented in line with its risk management strategy. The Group continues to assess the effectiveness of its hedging relationships prospectively. The Group's qualifying hedging relationships in place at 1 October 2018 also qualified for hedge accounting in accordance with IFRS 9 and were regarded as continuing hedging relationships. The application of the new hedge accounting requirements has no impact on the Group's financial statements.

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.