Treatt PLC - TET
Final Results
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TREATT PLC
(the "Company" or the "Group")
FULL YEAR RESULTS FOR THE YEAR ENDED 30 SEPTEMBER 2018

The Group delivers further strong growth with revenue up 10.8% resulting in adjusted* earnings per share up 9.8%

Treatt plc, the manufacturer and supplier of innovative ingredient solutions for the flavour, fragrance, beverage and consumer product industries, announces today its results for the year ended 30 September 2018.

FINANCIAL HIGHLIGHTS*:

	Financial year ended 30 September 2018	Financial year ended 30 September 2017	Change
Revenue[1]	**£112.2m**	£101.3m	+10.8%
Gross profit	**£27.8m**	£25.3m	+9.9%
Operating profit	**£13.9m**	£12.5m	+11.1%
Adjusted profit before tax	**£12.6m**	£11.7m	+8.1%
Adjusted basic earnings per share	**18.02p**	16.41p	+9.8%

[1] In constant currency revenue grew by 14.1%

OPERATIONAL HIGHLIGHTS:

- 2022 strategic growth plan on track
- Won significant new business with global FMCG companies through our continued focus on the key growth drivers of citrus, tea and sugar reduction solutions
- Material advances made on our capital investment programme:
  - US expansion project on time and on budget and expected to be completed in 2018 and fully operational in Spring 2019
  - UK relocation at advanced stages of design optimisation and progressing well
- Successful disposal of non-core subsidiary, Earthoil Plantations, for enterprise value of £11.3m

Commenting on the results, CEO Daemmon Reeve said:

"I am delighted to report another year of strong growth for Treatt. Last year's performance set the bar high, so I am delighted to report that Treatt's teams from across the business have built upon that performance and secured further success in the year.

"*The Group has had a steady start to the new financial year with a number of attractive opportunities in our pipeline of projects with both existing and new customers. We are well placed to capitalise on these opportunities with our capacity expansion in the US expected to complete in the coming weeks. Whilst still early in the financial year, the Group continues to perform in line with the Board's expectations for the full year."*

* All measures are based on continuing operations and exclude exceptional items.

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CAUTIONARY STATEMENT ABOUT FORWARD-LOOKING STATEMENTS

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

Chairman's statement

A year of significant progress for Treatt, with funding in place to support future growth

Excellent results

This has been another year of significant progress for Treatt. The team met the targets that had been set, with revenues* up by 11% to a record £112.2m (2017: £101.3m), and profit before tax* reaching £12.6m (2017: £11.7m).

We also completed the disposal of Earthoil Plantations, a non-core business, for an enterprise value of £11.3m. This provided additional growth capital and allows us to focus on the pursuit of our 2022 strategic plan based around our core markets of citrus, tea and sugar reduction.

This strong performance derives from a resolute focus on executing our clear strategy and an uncompromising commitment to operational excellence, founded on supplying high quality, consistent products that meet customer needs, engineered for optimum value.

Favourable market dynamics

Notwithstanding economic and political uncertainties around the world, long-term trends including health and wellness, an increasing desire for innovative flavours and the burgeoning middle class in emerging markets, point to a growing market for our customers' products, and associated opportunities for Treatt's inventive and value-adding solutions.

Our specialist focus areas of citrus, tea and sugar reduction all sit at the centre of trends we are seeing in beverage markets across the 90 countries in which we operate. This gives us confidence that Treatt is well positioned to deliver long term growth.

Looking back on the last financial year, our customers' end markets were buoyed by a particularly hot summer which drove beverage consumption in the northern hemisphere.

Successful placing

Last year we successfully raised net proceeds of £20.8m by way of an equity placing with new and existing shareholders in order to invest in expanding our operations in the US and UK.

On-going expansion

Our expansion plans in the US are proceeding at pace and we are on schedule to increase our footprint in Florida substantially. The resulting increased capacity cannot come too soon and I'm pleased to report we remain on time and on budget. In addition, plans for our new UK headquarters are underway and we expect building to commence mid 2019.

Aside from our investment in physical infrastructure, we have also grown our sales teams and supporting resource in the US, to capitalise on growth opportunities in North America, the dominant market for new beverages.

Well placed for future growth

Treatt is well positioned for future growth. We are recognised as a trusted provider of flavours that are natural, authentic and meet the aspirations of our customers, which is reflected in the attractive contracts we continue to secure.

We have a clear strategy and know where our niches lie. With liquidity from our share placing and the divestment of Earthoil, we are well placed to capitalise on the opportunities in the markets in which we participate. We have also made good progress in our newer territories in the Far East and India and have plans to take advantage of the sizeable potential in those markets. Our expansion in the UK and US will put in place the resources we need to better serve our more established territories as well as new markets around the world.

An enabling culture

Treatt is a dynamic and exciting business, with a culture built on focus, passion and collaboration. Our teams are integrated and there is a holistic work ethos, with colleagues working closely together to deliver to customers the right products, at the right time and at the right price.

As well as its work on succession planning, the Board places a high degree of importance on the culture, values and essence of Treatt. Our culture is extremely important; our people genuinely value one another and feel part of Treatt. That is also reflected in the collegiate yet challenging style of the Board, where we like to reach unanimous decisions. If something isn't right, we keep at it until it is and we can all get to an agreed position.

The Board also engages regularly with the staff in the business. The entire Board visits the US at least once a year and are visible in our Bury St Edmunds head office. We get involved with fundraising initiatives such as Macmillan coffee mornings, and I have an open door policy for staff and individual Board members to approach me with any concerns or opportunities.

We have a very well balanced Board, with world-class experience and depth of insight across functional as well as geographical areas. At our AGM in January we will bid farewell to Anita Haines who first joined Treatt in 1988. Having been on the Board for 16 years, firstly as HR Director and more recently as a Non-executive Director, Anita's contribution to Treatt has been immense. We will all miss her wise counsel and wish her well in retirement. A process is now underway to recruit a new Non-executive Director.

Working responsibly

Environmental, social and governance (ESG) matters are of particular importance to the Board and to Treatt generally. We seek to operate in a sustainable, low carbon way and of course we comply with regulatory requirements. Indeed this is an important design requirement for our new UK site. Treatt are adept at dealing with issues around extreme weather events impacting crops by having a robust risk mitigation strategy on sourcing.

We are also mindful of the communities in which we work, as well as those we serve. We focus on staff engagement, and a general awareness of sustainability. We aim to embed ESG matters more fully into our KPIs, taking account of the environmental impact of our decisions. For example, how sustainable is a particular product? Are we aware of any challenges and risks with sourcing? We are looking at how we can reflect, in our practical motivations and behaviours, the issues that are important.

We are also keen to work with local schools, particularly on STEM projects and generally in promoting science.

Growing dividend

The Directors propose to pay a final dividend of 3.50p per share (2017: 3.35p), increasing the total dividend for the year by 6.3% to 5.10p (2017: 4.80p). If approved by shareholders at the AGM, the final dividend will be payable on 21 March 2019 to all shareholders on the register at the close of business on 8 February 2019. Shareholders who wish to participate in the dividend re-investment plan for this and future dividends should elect to do so by 28 February 2019.

Outlook

We have made a steady start to our new financial year. We know what our focus is, we know our markets, and we know we have to extend our capacity, and have clear plans to minimise any disruption during that process. There is plenty of demand and innovation in our established markets, as well as huge growth potential in China and India. There are uncertainties in relation to factors such as Brexit and US government policies, but in practice the desire of consumers to drink beverages is influenced far more by the weather than by politics.

We operate in a competitive market, but our strong relationships, values and culture are a very important part of what makes Treatt successful. On behalf of the Board, I wish to pay tribute to the dedicated people that make Treatt such a special company, and we look forward to further success in the year ahead and beyond.

Tim Jones

Chairman

26 November 2018

* Adjusted to exclude exceptional items and discontinued operations, details of which are given in notes 8 and 10.

Chief Executive's review

A strong year for the Group as our efforts and performance delivered exciting new customer wins and give us further confidence for the future

Another strong year

I am delighted to report another year of strong growth for Treatt. Last year's performance set the bar high, so I am delighted to report that Treatt's teams from across the business have built upon that performance and secured further success in the year. Growth in key product categories of citrus, tea and sugar reduction have been noteworthy and are in line with our strategy and we also continue to achieve success in exciting newer areas of flavoured beverage growth such as tonic water and non-alcoholic spirits.

Having achieved the previous goals we set ourselves three years early, the Board approved an updated version of our 5-year strategy in September 2017. One year on and the results have been encouraging with revenue growth from continuing operations of 11% to £112.2m (2017: £101.3m). As we continue our transition from our trading house origins we are developing a higher proportion of more technical, value-added solutions in partnership with customers. This aspect to our business presents exciting opportunities and growth potential as owners and brand leaders value both the quality and authenticity of Treatt's products.

Looking back over the last 5 years, we have delivered a total shareholder return of more than 330%. We are excited by such significant growth and will aim to use our experience from the past five years to drive further growth and deliver greater value for shareholders in the long term.

As the focus on our core areas of business continues to sharpen we sold a non-core operation, Earthoil, to Univar for an enterprise value of £11.3 million and look forward to seeing the business develop under new ownership.

As part of this strategy, we have made progress on the development of our sites in the UK and US, with our successful share placing helping us to raise the necessary funds to drive this growth.

The reported increase in revenue from continuing operations was 10.8%, which in constant currency terms reflects an increase of 14.1%. Reported adjusted* profit before tax increased by 8.1% to £12.6m, compared with £11.7m last year, resulting in adjusted* basic earnings per share on continuing operations of 18.02p up 9.8% relative to last year (2017: 16.41p).

Continued growth across core categories

All of our product areas performed well, with particular sales growth coming from our core categories of citrus, tea and sugar reduction which saw growth of 9%, 8% and 63% respectively.

Citrus

Citrus has been the core of our portfolio for a large part of Treatt's history but there is no room for complacency in this important category. A key part of our strategy is to provide additional cross discipline focus in this area to drive greater growth and unearth future potential for the teams to drive towards. Citrus as a flavour family remains in high demand for the beverage sector across the globe and continues to be designed in new product launches across a wide spectrum of the beverage market. Treatt is benefitting from our technical and commercial teams working very closely together in this space, alignment behind category management has further sharpened our focus and we are encouraged by our opportunities in this segment.

Tea

Sales of our specialist ingredient solutions have continued to increase, buoyed by the sustained growth in demand for ice tea, notably in North America, where the category has continued to gain share from carbonated soft drinks and where our investment in expanded capacity will help drive further growth. The authentic, fresh-brewed flavour of our proprietary natural distillates has been a key driver of our success in this segment. Whether we are supplying a large volume black tea for an established product or a matcha tea for an innovative new line, we work closely with our clients, utilising our in-house tea sommeliers to ensure successful 'concept commercialisation' across a wide array of solutions.

Sugar reduction

Growing consumer desire for natural and authentic and a societal trend towards health and wellness are playing into the sweet spot of Treatt's strategy and portfolio. Sugar reduction remains the hottest topic in the beverage industry. Whether sugar taxes have been implemented in a market or simply mooted, the debates themselves have served to raise consumer awareness of the calorific content of some beverages. The primary consideration – and holy grail – for beverage brands is to reduce sugar while maintaining the authentic, desirable, flavour profiles of the product.

Treatt plays a niche and technical role in the scientifically complex sphere of sugar reduction. We are not involved with the sweetness nor the bulk or mouthfeel of sugar, rather we play principally in the flavour and aroma of sugar, which is difficult to reproduce without calorific impediment and we are forging a growing reputation in this important space.

Other categories

Demand for our solutions has been underpinned by the ongoing dynamism in the beverage market, with consumers across developed markets seeking ever more innovative flavours that are also natural and authentic. The choice available to consumers is markedly greater than five years ago, whether in the supermarket aisle or in on-trade outlets, with even traditional venues offering the likes of gin menus, pairing inventive varieties with a range of complementary mixers. Challenger brands coming to market present great opportunities for Treatt, and there is a fit with our agility as an ingredients specialist. We have some highly technical and developed processes within our technologies and know-how that enable beverage formulators to bring the natural authenticity to beverages that consumers are increasingly demanding. Other areas of non beverage activity have also seen solid growth, whether that be from our partner Endeavour Chemicals, the high-impact synthetic aroma chemical manufacturer through to FMCG activity with non-beverage household goods manufacturers obtaining quality and value from our citrus processing capabilities into markets such as fragrance for detergent.

Delivering on our reinvigorated strategy

Having reached our 2020 profit objective three years early, last year we set ourselves new goals and refined our successful strategy. Our revised strategy gives renewed focus to our areas of particular strength, recognising that our capabilities in the beverage market have been the core drivers of our performance. Within that sector, we are giving additional resource to our winning citrus, tea and sugar reduction propositions. This does not mean that we are backing away from other categories, rather we are prioritising those that have contributed most to the recent success of Treatt, as well as offering the most potential for growth in the context of the evolving consumer habits with an increased general demand for healthier and natural products.

As we have increasingly focused on technical, value-added solutions, our scientists are engaging with peer scientists at beverage companies more than ever. Our historical trading activity remains an important part of our business, but we engage in this only in opportunistic areas where there is a benefit to doing so. For example, we are known as a trader of orange oil, and our activity in this area means we are able to enjoy economies from higher volume sourcing that benefit our business as a whole.

Another key pillar of our strategy is that we are looking to grow our global footprint. Aside from generating pleasing growth in our more established North American and European markets, we are encouraged by the contract wins achieved since we invested in a local presence in each of China and India. We see significant potential in these vast and growing markets, and have explicit 'game plans' for how best to direct our resources to capitalise on this.

Our physical infrastructure is another important element of our strategy and capacity expansion of our US and UK facilities is a core facilitator of our growth plans.

The US expansion at our facility in Lakeland, Florida is progressing to plan with construction nearing completion. This much needed 50,000sq ft manufacturing and 15,000sq ft laboratory and office expansion will give us significant additional capacity to help meet existing demand, as well as the platform to support our growth in the future. The construction is expected to be completed by the end of 2018 with the plant fully operational in early 2019.

Much detailed planning work has gone on in value engineering our options for our UK site relocation to deliver the optimum solution for all our stakeholders. Our latest estimate for construction to commence is mid 2019 with a move-in date anticipated for summer 2020. The benefits of moving from six discrete buildings on our Bury St Edmunds estate where we have been present since 1971, to a single purpose-built science-led facility are significant and wide ranging and will push our efficiencies, culture and collaboration opportunities to ever greater heights. The new site will be modular in design, thereby allowing for future expansion in the most cost effective way, and the multiple operational improvements should help to deliver margin improvements over the medium term.

A key thread that runs through our strategy is our people, and a culture that we can be genuinely proud of. One of the reasons we have performed so well is the amount of discretionary effort made by our people, who are very aligned and engaged with what we are doing, particularly since the majority of our staff are shareholders. A happy and engaged workforce has been the fuel for the Group in the last few years and we see that element as key in our future success too. Our people are trusted and empowered, and we do what we can to support them, both in and outside of work. We harvest ideas and allow our people to shape our culture, rather than imposing one on them. The benefits of better communication and working closely together are reflected in our strong performance, and have truly been the underpinning of it. Our efforts to succeed as a business have been recognised both locally and nationally. Our corporate culture was at the forefront when we won the Business Weekly 'Business of the Year' award which is aimed at showcasing the very best of East of England businesses.

Engagement between the Board and employees is a regular feature of life at Treatt. The Board are around the company often, which is something the Board and staff appreciate and is a core part of our transparent culture.

The work that we do with our local communities is very important to us and we are increasingly recognised as a business which takes genuine responsibility as a large employer, particularly in Bury St Edmunds, where our headquarters are based.

This year we have worked closely with West Suffolk Hospital's MyWiSH charity to raise money for their new cardiac unit. We also recently took part in the MyWiSH Soapbox Challenge, giving us a great team-building event and fun day. Treatt is a regular supporter of UpBeat Heart Support, St Nicholas Hospice Care, Breast Cancer Awareness and MIND. At our Lakeland site, staff are given time off to help pack food parcels for Kidspack which provides meals to children when not at school. The team there also continues to fundraise for the local Women's Resource Centre, helping women and their families.

Treatt continues to support local events such as Bury in Bloom as well as working closely with schools and colleges, encouraging local schoolchildren to spend time with us through visits and work experience placements. We are always keen to share our expertise with students at careers fairs, science fairs and through our STEM Ambassadors.

As a company we continue to endorse sport in the workplace and offer a programme of sporting activities. As a result, staff have been involved in bike rides, running, sponsored walks and golf days.

All our staff have been trained by Suffolk Needs Met, backed up by equipping all Team Leaders and Managers to be able to support staff with mental health and wellbeing. We encourage proactive health management, running health education sessions and offering free NHS medicals for those over 45 years old.

Promising outlook

The trends we are seeing in the external environment play to our strengths, with our emphasis on natural ingredients. The Group has had a steady start to the new financial year with a number of attractive opportunities in our pipeline of projects with both existing and new customers. We are well placed to capitalise on these opportunities with our capacity expansion in the US expected to complete in the coming weeks. Whilst still early in the financial year, the Group continues to perform in line with the Board's expectations for the full year.

We are hungrily growing Treatt and building the business for the long term. We have enjoyed much success in the past 5 years but it is the future we continue to focus our attention on. There is no room for complacency in the dynamic markets we serve and the great endeavours by the teams across Treatt will ensure we are relentlessly striving to grow this business further, working with agility and intelligence as well as passion and dedication.

I wish to extend my heartfelt thanks to my talented and driven colleagues, who have once again delivered encouraging progress against our strategic objectives, their efforts impress me every day.

Daemmon Reeve

Chief Executive Officer

26 November 2018

* Excludes exceptional items and discontinued operations, details of which can be found in notes 8 and 10.

Financial review

Revenue* grew by 10.8% resulting in adjusted* earnings per share up by 9.8%

Income Statement*

Revenue and profit

Revenue for the year from continuing operations grew by 10.8% to £112.2m (2017: £101.3m) with growth continuing across all of the Group's main product categories. Sugar reduction saw strong double digit growth in particular, driven by new FMCG wins. In constant currency terms, revenue from continuing operations grew by 14.1%, with 3.3% of the revenue growth being reflective of a weaker US Dollar in 2018 as compared to 2017.

Strong revenue growth in mainland Europe (+24%) to £27.7m and the UK (+43%) to £11.0m was partly offset by a 6% decline in China to £5.4m. The Group's largest market, being the US, was marginally up at £41.0m (2017: £40.6m).

Gross profit grew by 9.9% with gross profit margins decreasing marginally from 25.0% to 24.7%. This fall in margins resulted from the combined effect of movements in foreign exchange rates and new business wins with large FMCG businesses at initially lower margins. In respect of the latter, the subsequent process improvements and strengthened procurement typically leads to stronger margins over time. We have a strong track record of growing margins with new clients through our collaborative, science-led approach.

Administrative expenses grew by 8.6% in the year to £13.8m (2017: £12.7m), although on a constant currency basis the increase was higher at 9.4%. Approximately half of the £0.9m increase in administrative expenses was driven by increases in employment costs, with headcount numbers increased across the Group - up by 10% globally. This investment in people has been driven by our growth over the last five years as well as our move up the value chain and is focussed primarily around science and sales.

Following five years of continued improvement, net operating margin* remained unchanged in the year at 12.4% (2017: 12.4%). This compares to 9.6% five years ago. Consequently, operating profit* increased by 11.1% to £13.9m (2017: £12.5m).

The Group's capital employed increased substantially as a result of the share placing referred to below. Consequently, based upon the capital employed at 30 September 2018, return on capital employed* decreased to 18.5% (2017: 22.1%).

During the year the planning work commenced for the relocation of the Group's UK headquarters to a new 10-acre site in Bury St. Edmunds. Consequently the estimated useful lives of property, plant and equipment were reassessed resulting in an accelerated depreciation charge of £0.2m. In addition legal and professional fees, including lawyers, planning consultants, architects and manufacturing plant and machinery specialists have been engaged at a total cost to date of £0.9m. These expenses, totalling £1.1m are included in exceptional items (see note 8). There were no exceptional costs in the prior year. Profit before tax and exceptional items from continuing operations rose by 8.1% to £12.6m (2017: £11.7m). On an adjusted basis, which excludes exceptional costs, earnings before interest, tax, depreciation and amortisation for the year increased by 5.5% to £14.9m (2017: £14.1m).

Foreign exchange gains and losses

Whilst the Group's functional currency is the British Pound ('Sterling'), the amount of business which is transacted in other currencies creates foreign exchange exposure, particularly the US Dollar and, to a more limited extent, the Euro. Although weaker on average over the year, the US Dollar ended the year 3% stronger against GBP at £1=$1.30 (2017: £1 = $1.34). As explained further under 'Financial Risk Management' set out below, the Group hedges its foreign exchange risk at R C Treatt by holding and managing US Dollar borrowings and taking out forward currency contracts and options. This can result in timing differences in the short term, giving rise to re-translation gains or losses in the income statement. This has resulted in a loss on foreign exchange contracts and re-translation losses in aggregate of £1.1m (2017: £0.3m gain), of which £0.7m related to ineffective hedges (see note 7).

There was a substantial currency impact, a gain of £0.9m (2017: £1.1m loss), in the 'Statement of Comprehensive Income' in relation to the Group's investment in overseas subsidiaries, principally in respect of Treatt USA.

Finance costs

The Group's net finance costs for the year fell by 33% to £0.57m (2017: £0.85m) as a result of the Group becoming cash positive in the year, due to the combined effect of the share placing in December 2017 and the disposal of Earthoil Plantations in May 2018. Although in a cash positive position, there are a number of fixed costs for maintaining facilities for future use including facility fees and non-utilisation fees which are funded from operating cash flows. During the year the Group settled its interest swap which had previously been used as part of the Group's risk management processes but was no longer required. Following the decrease in net finance costs, interest cover for the year before exceptional items and discontinued operations increased to 24.6 times (2017: 14.7 times).

Group Tax Charge

The current tax charge of £2.9m (2017: £3.2m) represents an effective rate (based on profit before tax and exceptional items) of 24.3% (2017: 27.5%). After providing for deferred tax, the overall tax charge reduced by £0.7m to £2.3m (2017: £3.1m); an overall effective tax rate (after exceptional items) of 19.8% (2017: 26.8%). As we announced in April 2018, the significant change in the year was the sizeable reduction in US corporation tax rates with effect from 1 January 2018 from 35% to 21%. This had the effect of both reducing the current year tax charge on US profits as well as creating a one-off deferred tax gain on US deferred tax liabilities of £0.3m. There were no significant adjustments required to the previous year's tax estimates. With corporation tax rates continuing to fall in the UK until they reach an expected 17% in 2020, the Group's overall effective rate of tax is expected to fall over the course of the next three years assuming the profit mix between tax jurisdictions remains broadly unchanged.

Disposal of Earthoil Plantations

As part of the Group's updated strategy for the five years through to 2022, the Board determined that Earthoil was non-core to Group operations. In May 2018, therefore, the Group sold Earthoil Plantations Limited for cash consideration of £10.1m of which £1m is held in escrow for a period of 12 months. A further balance of £1.2m was also received in October 2018 from the purchasers in respect of the settlement of what were previously inter company balances. The total enterprise value received for Earthoil will therefore total £11.3m.

The gain on disposal of Earthoil Plantations, which has been included within discontinued operations, totalled £2.4m. Further information on discontinued operations is shown in note 10. As part of the sale agreement, Earthoil's Kenyan subsidiaries remained part of the Treatt Group and entered into a three-year supply agreement with the purchasers and continue to be considered as discontinued operations and held for sale.

Earnings per share

Adjusted basic earnings per share (excluding exceptional items and discontinued operations, as set out in note 12) for the year increased by 9.8% to 18.02p (2017: 16.41p). The calculation of earnings per share excludes those shares which are held by the Treatt Employee Benefit Trust (EBT) and Treatt SIP Trust (SIP) which are not beneficially owned by employees since they do not rank for dividend, and is based upon adjusted profit after tax.

Dividends

The proposed final dividend of 3.50p per share (2017: 3.35p) increases the total dividend per share for the year by 6.3% to 5.10p, representing dividend cover of 3.4 times continuing pre-exceptional earnings for the year and a rolling three-year cover after exceptional items of 3.1 times. The Board's policy has been to maintain dividend cover on a consistent basis at between 2.0 and 2.5 times three-year rolling cover. However, as per last year, in light of the Group's capital investment programme, this year's dividend increase has been set with a more prudent level of dividend cover. The Board considers this to be appropriate given the equity fund raise which took place during the year and the forthcoming cash requirements of the business in order to fund the UK site relocation and US expansion.

Balance Sheet

As referenced above, during the year the Group undertook an equity fund raise in order to secure funding to support the Group's capital investment programmes in the UK and US. In December 2017 the Group placed 5.3m shares (approximately 10% of the pre-existing share capital) at a placing price of £4.10 per share. Net of costs this generated £20.8m. Consequently shareholders' funds grew by £35.1m (2017: £9.3m) in the year to £81.6m (2017: £46.5m), with net assets per share increasing by 56% to 137p (2017: 88p). Over the last five years net assets per share have grown by 162%. The Board has chosen not to avail itself of the option under IFRS to revalue land and buildings annually and, therefore, all the Group's land and buildings are held at historical cost, net of depreciation, on the balance sheet.

Cash Flow

As referred to earlier, during the year the Group raised £20.8m from the equity fund raise and as at year end had received £8.7m net of costs in relation to the sale of Earthoil Plantations. The level of capital expenditure in the year was £6.6m compared with £5.2m in 2017, and included £6.0m for the US expansion project which is due to complete at the end of 2018. No major capital projects in the UK were commenced in the year, with the UK site relocation being at the planning stage and capital expenditure tending to be related to on-going routine renewal and maintenance whilst plans progress towards the intended relocation.

The cash flow benefit of delaying certain capital projects in the UK in anticipation of the new site will inevitably reverse (as explained below) as both delayed projects, and brought forward capital expenditure, will occur as part of the site relocation. Of the £13m of planned capex at the new UK site, approximately £6m relates to projects which would have been undertaken at the current site in the last five years, had the impending site move not been on the horizon. This includes rationalising tanks, implementing clean-in-place technology and computer-controlled stills.

There was an overall working capital outflow in the year of £12.7m which was driven by an outflow in relation to trade debtors and other receivables of £9.9m. Some of this relates to timing as invoiced sales in the last two months of the financial year were stronger than the comparative period, but the more significant impact concerned large FMCG clients requiring longer payment terms than was previously the case.

Inventory held at the year end was £39.6m (2017: £42.9m), a decrease of £3.3m. Excluding Earthoil, inventory rose by £1.6m on a like-for-like basis. The level of inventory, which is highly significant in cash terms, arises because as an ingredients specialist, Treatt takes many annual, and in some cases longer-term, contracts with customers as well as servicing the immediate spot needs of its diverse customer base. The success of the business has been built upon managing geographic, political and climatic risk of supply for our customers by judicious purchasing and inventory management to ensure continuity of supply and availability. Therefore, it is part of the Group’s business model to hold significant levels of inventory.

Whilst short-term working capital swings are affected by the factors referred to in the previous paragraph, and the free cash flow in the year was an outflow of £6.0m, the net free cash flow generated over the last five years totals £6.1m.

Net cash position

As a result of the movement in cash, as described above, the Group moved from a net debt position of £10.2m in 2017, to a net cash positive position of £10.1m in 2018. Although the Group currently has a net cash position, this is due to the fact that the major expenditure on the UK site has yet to commence, with only the land (£3.7m) and some preliminaries having been incurred to date. The Group therefore retains a mix of secured and unsecured borrowing facilities totalling £25.0m, of which £4.3m expires in one year or less. The Group’s borrowing facilities are held with HSBC, Bank of America and Lloyds Banking Group with the majority of facilities now held on three to five-year terms with expiry dates staggered to fall in different years. The Group continues to enjoy positive relationships with its banks and expects all facilities to be renewed when they fall due.

UK Site Relocation

Work towards relocating our UK business from its current site in Bury St. Edmunds, UK, to a brand new purpose-built facility nearby continues. The Group acquired a ten-acre green field site on the new Suffolk Park in Bury St. Edmunds in mid 2017. We are currently in the process of refining our proposals in order to ensure we deliver best value to shareholders. This is a project which the Board believes is essential in order to deliver our growth objectives over the medium to long term.

The following table breaks down the cost estimates for the project. These cost estimates remain unchanged from the prior year as the Board are committed to delivering this project through a disciplined process of value engineering. As referenced earlier, the project includes costs to upgrade our plant and machinery and new technologies. As a business we keep abreast of new technologies which can add value to our operations and the move gives us the opportunity to incorporate some of these in the design and build of the new facility. The level of investment in this area is still subject to final review but current estimates are in the order of £13m, of which approximately half relates to projects held back from the current site, with the balance being new and enhanced technologies.

The overall estimated costs of this move break down into four key elements with the estimated costs (see below for further information as to the basis of these estimates) as follows:

New site acquisition and build costs	£26m
Plant, machinery and technical capability enhancements	£13m
Relocation expenses	£1m
Disposal of current site following completion of move	(£5m)
Total net relocation budget (estimate)	£35m

Of the total budget, £4.2m has been spent to date in relation to acquiring the land and professional fees. We now hope to appoint the main contractors for the project in early 2019 with a view to taking occupation in mid 2020. This is some six months later than previously anticipated as the ultimate designs have taken longer to finalise than had been expected. Consequently, the cash outflows for the project have moved back by between 6-9 months. We now, therefore, expect net debt to EBITDA to peak at 1.4X in March 2020.

Whilst the detailed costs for the project have been prepared in full quantity surveyor detail, the Board recognises the risks inherent in a project of this scale. The Board has reviewed the level of contingency allowed for in the project, being 7.5%, and considered the flexibility built into the plant and machinery spend. These factors, combined with the funding now in place following the share placing, give the Board confidence that risks inherent in the UK relocation project have been mitigated as far as practicable.

US Site Expansion

As reported last year, the US expansion project began earlier in the year in order to double our capacity for the key product categories of tea and sugar reduction, with space for further expansion, as well as expanding our laboratory and office facilities which are now full to capacity. This project is now nearing completion and remains in line with the budget we reported last year of $14m and equally importantly it remains on time with completion due by the end of 2018, and with the new plant expected to be fully operational in spring 2019.

Treatt Employee Benefit Trust and Treatt SIP Trust

The Group has an HMRC-approved Share Incentive Plan (SIP) for its UK employees, and as far as practicable, also offers a similar scheme to its US staff. All UK staff with a year's service were awarded £575 (2017: £550) of 'Free Shares' during the year as part of the Group's employee incentive and engagement programme as the Board is firmly of the view that increased employee share ownership is an important tool for driving positive employee engagement in the business. A similar scheme exists for US staff who were awarded $875 (2017: $850) of Restricted Stock Units during the year. These shares are forfeited by employees who leave within three years from the date of grant.

Under the SIP, UK employees could also purchase up to £1,800 (or 10% of salary, whichever is lower) of Treatt shares out of gross income at no cost to the company which the company matched on a one and a half for one basis. In the year a total of 48,000 (2017: 28,000) matching shares were granted.

During the year, 230,000 (2017: 150,000) shares were issued to the SIP at par (2 pence per share). The SIP currently holds 540,000 shares (2017: 356,000), of which 215,000 (2017: 84,000) are beneficially owned by the company and are available for future awards. It is anticipated that going forward the obligations under the SIP will be satisfied through the issue of new shares.

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

Under the Long Term Incentive Plans which were approved by shareholders at the 2014 Annual General Meeting, Executive Directors and certain key employees were granted 205,000 (2017: 252,000) nil cost share options during the year which will vest after three years on a sliding scale, subject to performance conditions. In total, options were granted over 341,000 (2017: 370,000) shares during the year, whilst 873,000 (2017: 323,000) were exercised from options awarded in prior years which have now vested.

During the year, 1,070,000 (2017: 100,000) shares were issued to the Employee Benefit Trust (EBT) at par (2 pence per share). The EBT currently holds 542,000 shares (2017: 353,000) in order to satisfy future option schemes. It is anticipated that going forward, all-employee savings-related share schemes will continue to be satisfied by shares held within the EBT, but that when necessary further shares will be issued to the EBT.

Final Salary Pension Scheme

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

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

As required by The Pension Regulator, the actuarial review was updated on a consistent basis as at 30 September 2018 which showed a small improvement to a surplus of £0.7m (2017: deficit of £0.3m), being a funding level of 103% (2017: 98%).

Alongside this, the IAS 19, "Employee Benefits" pension liability in the balance sheet, net of deferred tax, fell in the year from £4.8m to £2.9m. The decrease in the deficit was largely the result of updating the IAS 19 calculations in line with the scheme's latest actuarial results, and an increase in the value of scheme assets.

Financial Risk Management

The Group operates conservative treasury policies to ensure that no unnecessary risks are taken with the Group's assets.

No investments other than cash and other short-term deposits are currently permitted. Where appropriate these balances are held in foreign currencies, but only as part of the Group's overall hedging activity as explained below.

The nature of Treatt's activities is such that the Group could be affected by movements in certain exchange rates, principally between Sterling and the US Dollar, but other currencies such as the Euro can have a material effect as well. This risk manifests itself in a number of ways.

Firstly, the value of the foreign currency net assets of Treatt USA can fluctuate with Sterling.

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

When the Group is in a net debt position, the Group has a policy of maintaining the majority of cash balances, including the main Group overdraft facilities, in US Dollars and, to a lesser extent in Euros, as this is the most cost-effective means of providing a natural hedge against movements in exchange rates. Where it is more cost effective to do so, the Group will enter into forward currency contracts and options as well. Consequently, during the year forward currency contracts have been entered into which hedge part of R C Treatt's foreign exchange risk. These contracts and options have been designated as formal 'hedge' arrangements, with movements in mark-to-market valuations initially taken to equity and re-cycled to the income statement to match with the appropriately hedged currency receipts. However, under the technical provisions of IFRS, a number of forward contracts were deemed to be 'ineffective' whilst still achieving the Group's objectives. Consequently a foreign exchange loss of £0.7m is included in other gains and losses in the income statement. Currency accounts are also run for the other main currencies to which R C Treatt is exposed. This policy is expected to protect the Group against short-term swings in currencies.

Summary

In 2012 we began a new journey for Treatt by establishing a focused strategy of growing our profits in a sustainable manner. Following a very strong performance in 2017 we set ourselves new goals and targets to aim for with our 2022 growth strategy. A major part of that strategy is the extensive capital investment programme in both the UK and US, which the Board believes will provide the scalable platform to drive the long-term growth in the business.

It is therefore pleasing to report on a year of solid progress with a number of milestones achieved. Profits are up for the sixth successive year; we successfully raised over £20m from the share placing to support the Group's capital investment programme; the US expansion is nearing completion on time and on budget, and the sale of Earthoil Plantations was completed.

Richard Hope

Chief Financial Officer

26 November 2018

* All measures are based on continuing operations and adjusted to exclude exceptional items, details of which are given in notes 8 and 10.

Group Income Statement

for the year ended 30 September 2018

	Notes	2018 £'000	2017 £'000
CONTINUING OPERATIONS			
Revenue	6	**112,163**	101,250
Cost of sales		**(84,407)**	(75,985)
Gross profit		**27,756**	25,265
Administrative expenses		**(13,812)**	(12,718)
Operating profit [1]		**13,944**	12,547
Other losses	7	**(734)**	–
Net finance costs		**(568)**	(851)
Profit before taxation and exceptional items		**12,642**	11,696
Exceptional items	8	**(1,105)**	–
Profit before taxation		**11,537**	11,696
Taxation	9	**(2,284)**	(3,129)
Profit for the year from continuing operations		**9,253**	8,567
DISCONTINUED OPERATIONS			
Profit for the year from discontinued operations	10	**2,976**	978
Profit for the year attributable to owners of the Parent Company		**12,229**	9,545
Earnings per share			
From continuing and discontinued operations:			
Basic	12	**21.55p**	18.29p
Diluted	12	**20.99p**	17.72p
Adjusted basic[2,3]	12	**19.07p**	18.29p
Adjusted diluted[2,3]	12	**18.58p**	17.72p
From continuing operations:			
Basic	12	**16.30p**	16.41p
Diluted	12	**15.88p**	15.90p
Adjusted basic[2]	12	**18.02p**	16.41p
Adjusted diluted[2]	12	**17.56p**	15.90p

1 Operating profit is calculated as profit before other losses, net finance costs, exceptional items and taxation.
2 All adjusted measures exclude exceptional items, and in the case of earnings per share the related tax effect, details of which are given in note 8.
3 Excludes the 2018 gain on disposal of subsidiaries (2017: £nil).

Notes 1 –- 15 form part of this full year results announcement.

Group Statement of Comprehensive Income

for the year ended 30 September 2018

	2018 £'000	2017 £'000
Profit for the year attributable to owners of the Parent Company	**12,229**	9,545
Items that may be reclassified subsequently to profit or loss:		
Currency translation differences on foreign currency net investments	**912**	(1,107)
Current tax on foreign currency translation differences	**(24)**	59
Fair value movement on cash flow hedges	**(70)**	659
Deferred tax on fair value movement	**(27)**	(112)
	791	(501)
Items that will not be reclassified subsequently to profit or loss:		
Actuarial gain on defined benefit pension scheme	**2,505**	1,468
Deferred tax on actuarial gain or loss	**(426)**	(250)
	2,079	1,218
Other comprehensive income for the year	**2,870**	717
Total comprehensive income for the year attributable to owners of the Parent Company	**15,099**	10,262

Notes 1 – 15 form part of this full year results announcement.

Group Statement of Changes in Equity

for the year ended 30 September 2018

Group	Share capital £'000	Share premium account £'000	Own shares in share trusts £'000	Hedging reserve £'000	Foreign exchange reserve £'000	Retained earnings £'000	Total equity £'000
1 October 2016	1,053	2,757	(332)	(627)	3,675	30,661	37,187
Net profit for the year	–	–	–	–	–	9,545	9,545
Other comprehensive income:							
Exchange differences	–	–	–	–	(1,107)	–	(1,107)
Fair value movement on cash flow hedges	–	–	–	659	–	–	659
Actuarial gain on defined benefit pension scheme	–	–	–	–	–	1,468	1,468
Taxation relating to items above	–	–	–	(112)	59	(250)	(303)
Total comprehensive income	–	–	–	547	(1,048)	10,763	10,262
Transactions with owners:							
Dividends	–	–	–	–	–	(3,025)	(3,025)
Share-based payments	–	–	–	–	–	951	951
Movement in own shares in share trusts	–	–	162	–	–	–	162
Gain on release of shares in share trusts	–	–	–	–	–	193	193
Issue of share capital	5	–	(5)	–	–	–	–
Taxation relating to items recognised directly in equity	–	–	–	–	–	748	748
Total transactions with owners	5	–	157	–	–	(1,133)	(971)
30 September 2017	1,058	2,757	(175)	(80)	2,627	40,291	46,478
Net profit for the year	–	–	–	–	–	12,229	**12,229**
Other comprehensive income:							
Exchange differences	–	–	–	–	912	–	**912**
Fair value movement on cash flow hedges	–	–	–	(70)	–	–	**(70)**
Actuarial gain on defined benefit pension scheme	–	–	–	–	–	2,505	**2,505**
Transfer between reserves	–	–	–	227	–	(227)	**–**
Taxation relating to items above	–	–	–	(27)	(24)	(426)	**(477)**
Total comprehensive income	–	–	–	130	888	14,081	**15,099**
Transactions with owners:							
Dividends	–	–	–	–	–	(2,876)	**(2,876)**
Share-based payments	–	–	–	–	–	1,049	**1,049**
Movement in own shares in share trusts	–	–	167	–	–	–	**167**
Gain on release of shares in share trusts	–	–	–	–	–	419	**419**
Issue of share capital	131	20,727	(26)	–	–	–	**20,832**
Taxation relating to items recognised directly in equity	–	–	–	–	–	457	**457**
Total transactions with owners	131	20,727	141	–	–	(951)	**20,048**
30 September 2018	**1,189**	**23,484**	**(34)**	**50**	**3,515**	**53,421**	**81,625**

Notes 1 – 15 form part of this full year results announcement.

Group Balance Sheet

as at 30 September 2018

	2018 £'000	2017 £'000
ASSETS		
Non-current assets		
Goodwill	–	2,727
Other intangible assets	752	604
Property, plant and equipment	20,038	14,821
Deferred tax assets	1,073	1,380
	21,863	19,532
Current assets		
Inventories	39,642	42,878
Trade and other receivables	28,828	19,973
Current tax assets	29	148
Derivative financial instruments	–	483
Cash and bank balances	32,304	4,748
Assets classified as held for sale	1,598	–
	102,401	68,230
Total assets	124,264	87,762
LIABILITIES		
Current liabilities		
Borrowings	(19,244)	(7,680)
Provisions	(58)	(57)
Trade and other payables	(15,298)	(17,816)
Current tax liabilities	(760)	(1,450)
Derivative financial instruments	(401)	–
Liabilities classified as held for sale	(20)	–
	(35,781)	(27,003)
Net current assets	66,620	41,227
Non-current liabilities		
Borrowings	(3,001)	(7,293)
Post-employment benefits	(3,456)	(5,821)
Deferred tax liabilities	(401)	(764)
Derivative financial instruments	–	(403)
	(6,858)	(14,281)
Total liabilities	(42,639)	(41,284)
Net assets	81,625	46,478

Group Balance Sheet (continued)

		2018 £'000	2017 £'000
EQUITY			
Share capital	13	**1,189**	1,058
Share premium account	14	**23,484**	2,757
Own shares in share trusts		**(34)**	(175)
Hedging reserve		**50**	(80)
Foreign exchange reserve		**3,515**	2,627
Retained earnings		**53,421**	40,291
Total equity attributable to owners of the Parent Company		**81,625**	46,478

Notes 1 - 15 form part of this full year results announcement.

Group Statement of Cash Flows

for the year ended 30 September 2018

	Notes	2018 £'000	2017 £'000
Cash flow from operating activities			
Profit before taxation including discontinued activities		**14,555**	12,892
Adjusted for:			
Depreciation of property, plant and equipment		**1,519**	1,399
Amortisation of intangible assets		**124**	137
Loss on disposal of property, plant and equipment		**–**	7
Profit on disposal of other intangible assets		**(2)**	–
Profit on disposal of subsidiaries	10	**(2,382)**	–
Net finance costs		**610**	913
Share-based payments		**1,040**	966
Decrease/(increase) in fair value of derivatives		**638**	(185)
Increase/(decrease) in post-employment benefit obligations		**141**	(112)
Operating cash flow before movements in working capital		**16,243**	16,017
Movements in working capital:			
Increase in inventories		**(1,175)**	(13,607)
Increase in receivables		**(9,906)**	(2,454)
(Decrease)/increase in payables		**(1,582)**	4,727
Cash generated from operations		**3,580**	4,683
Taxation (paid)/received		**(2,978)**	(2,822)
Net cash from operating activities		**602**	1,861
Cash flow from investing activities			
Disposal of/(investment in) subsidiaries	15	**8,746**	(900)
Proceeds on disposal of property, plant and equipment		**–**	13
Purchase of property, plant and equipment		**(6,190)**	(5,111)
Purchase of intangible assets		**(389)**	(105)
Purchase of redeemable loan notes		**–**	(675)
Interest received		**36**	12
		2,203	(6,766)

Group Statement of Cash Flows (continued)

	Notes	2018 £'000	2017 £'000
Cash flow from financing activities			
(Repayment)/increase in bank loans		**(7,594)**	2,284
Settlement of financial derivatives		**(227)**	–
Interest paid		**(645)**	(925)
Dividends paid	11	**(2,876)**	(3,025)
Proceeds on issue of shares	13,14	**20,833**	–
Net sale of own shares by share trusts		**586**	355
		10,077	(1,311)
Net increase/(decrease) in cash and cash equivalents		**12,882**	(6,216)
Effect of foreign exchange rates		**(102)**	(85)
Movement in cash and cash equivalents in the year		**12,780**	(6,301)
Cash and cash equivalents at beginning of year		**280**	6,581
Cash and cash equivalents at end of year		**13,060**	280
Cash and cash equivalents comprise:			
Cash and bank balances		**32,304**	4,748
Bank borrowings		**(19,244)**	(4,468)
		13,060	280

Notes 1 - 15 form part of this full year results announcement.

Group Reconciliation of Net Cash Flow to Movement in Net Debt

for the year ended 30 September 2018

	2018 £'000	2017 £'000
Movement in cash and cash equivalents in the year	**12,780**	(6,301)
Repayment/(increase) in bank loans	**7,594**	(2,284)
Cash inflow/(outflow) from changes in net debt in the year	**20,374**	(8,585)
Effect of foreign exchange rates	**(90)**	14
Movement in net debt in the year	**20,284**	(8,571)
Net debt at beginning of year	**(10,225)**	(1,654)
Net cash/(debt) at end of year	**10,059**	(10,225)

Analysis of movements in net debt during the year are as follows;

	At 1 October 2017 £'000	Cash flow £'000	Exchange and other non-cash movements £'000	At 30 September 2018 £'000
Cash and bank balances	4,748	27,658	(102)	**32,304**
Bank borrowings	(4,468)	(14,776)	-	**(19,244)**
Cash and cash equivalents	280	12,882	(102)	**13,060**
Bank loans and overdrafts	(10,505)	7,594	(90)	**(3,001)**
Net cash/(debt) at end of year	(10,225)	20,476	(192)	**10,059**

Notes 1 - 15 form part of this full year results announcement.

NOTES TO THE FULL YEAR RESULTS

1. Basis of preparation

In accordance with Section 435 of the Companies Act 2006, the Group confirms that the financial information for the years ended 30 September 2018 and 2017 are derived from the Group's audited financial statements and that these are not statutory accounts and, as such, do not contain all information required to be disclosed in the financial statements prepared in accordance with International Financial Reporting Standards ("IFRS"). The statutory accounts for the year ended 30 September 2017 have been delivered to the Registrar of Companies. The statutory accounts for the year ended 30 September 2018 have been audited and approved but have not yet been filed.

The Group's audited financial statements for the year ended 30 September 2018 received an unqualified audit opinion and the auditor's report contained no statement under section 498(2) or 498(3) of the Companies Act 2006.

The financial information contained within this preliminary statement was approved and authorised for issue by the Board on 26 November 2018.

2. Accounting policies

These financial statements have been prepared in accordance with the accounting policies set out in the full financial statements for the year ended 30 September 2017.

There were no new standards and amendments to standards which are mandatory and relevant to the Group for the first time for the financial year ended 30 September 2018 which had a material effect on this full year results announcement.

3. Accounting estimates

The preparation of the full year results announcements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expenses. In preparing this preliminary statement, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those applied to the audited consolidated financial statements as at, and for the year ended, 30 September 2017.

4. Going concern

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

5. Risks and uncertainties

The operation of a public company involves a series of risks and uncertainties across a range of strategic, commercial, operational and financial areas. The principal risks and uncertainties that could have a material impact on the Group's performance over the next twelve months (for example, causing actual results to differ materially from expected results or from those experienced previously) are the same in all material respects as those detailed on pages 29-33 of the 2017 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, US and Kenya. Many of the Group's activities, including sales, manufacturing, technical, IT and finance, are managed globally on a Group basis.

Geographical segments

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

Revenue by destination		2018 £'000 Continuing	2018 £'000 Discontinued	2018 £'000 Total	2017 £'000 Continuing	2017 £'000 Discontinued	2017 £'000 Total
United Kingdom		10,997	2,051	13,048	7,693	2,577	10,270
Rest of Europe	– Germany	6,687	719	7,406	6,458	748	7,206
	– Ireland	8,310	–	8,310	7,280	–	7,280
	– Other	12,661	1,920	14,581	8,620	2,615	11,235
The Americas	– USA	40,963	1,030	41,993	40,619	1,952	42,571
	– Other	8,407	3	8,410	8,071	93	8,164
Rest of the World	– China	5,441	1	5,442	5,767	5	5,772
	– Other	18,697	409	19,106	16,742	386	17,128
		112,163	6,133	118,296	101,250	8,376	109,626

All Group revenue is in respect of the sale of goods, other than property rental income of £27,000 (2017: £17,000). No country included within "Other" contributes more than 5% of the Group's total revenue. The largest customer represented 10.7% of Group revenue (2017: 10.7%).

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

Continuing operations	2018 £'000	2017 £'000
United Kingdom	8,652	11,358
United States	12,138	6,364
Rest of the World	–	430
	20,790	18,152

7. Other losses

	2018 £'000	2017 £'000
Hedge ineffectiveness on cash flow hedges	734	–

The ineffectiveness of certain cash flow hedges in the year arose as a consequence of increased payment terms with certain large customers.

8. Exceptional items

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

	2018 £'000	2017 £'000
Accelerated depreciation expense	217	–
UK relocation expenses	888	–
	1,105	–
Less: tax effect of exceptional items	(130)	–
	975	–

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 take place in 2020.

9. Taxation

Analysis of tax charge in income statement

	2018 £'000 Continuing	2018 £'000 Discontinued	2018 £'000 Total	2017 £'000 Continuing	2017 £'000 Discontinued	2017 £'000 Total
Current tax:						
UK corporation tax on profits for the year	676	58	734	1,047	231	1,278
Adjustments to UK tax in respect of previous periods	(33)	–	(33)	(84)	–	(84)
Overseas corporation tax on profits for the year	2,301	–	2,301	2,260	–	2,260
Adjustments to overseas tax in respect of previous periods	(3)	–	(3)	(10)	–	(10)
Total current tax	2,941	58	2,999	3,213	231	3,444
Deferred tax:						
Origination and reversal of temporary differences	(325)	(15)	(340)	(106)	(29)	(135)
Effect of reduced tax rate on opening assets and liabilities	(331)	–	(331)	–	–	–
Adjustments in respect of previous periods	(1)	(1)	(2)	22	16	38
Total deferred tax	(657)	(16)	(673)	(84)	(13)	(97)
Tax on profit on ordinary activities	2,284	42	2,326	3,129	218	3,347

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

	2018 £'000	2017 £'000
Current tax:		
Foreign currency translation differences	24	(59)
Deferred tax:		
Cash flow hedges	27	112
Defined benefit pension scheme	426	250
Total deferred tax	453	362
Total tax expense recognised in other comprehensive income	477	303

9. Taxation (continued)

	2018 £'000	2017 £'000
Analysis of tax credit in equity		
Current tax:		
Share-based payments	**(576)**	(218)
Deferred tax:		
Share-based payments	**119**	(530)
Total tax credit recognised in equity	**(457)**	(748)

Factors affecting tax charge for the year

The tax assessed for the year is different from that calculated at the standard rate of corporation tax in the UK of 19% (2017: 19.5%). The differences are explained below:

	2018 £'000 Continuing	2018 £'000 Discontinued	2018 £'000 Total	2017 £'000 Continuing	2017 £'000 Discontinued	2017 £'000 Total
Profit before tax multiplied by standard rate of UK corporation tax at 19% (2017: 19.5%):	**2,192**	**573**	**2,765**	2,281	233	2,514
Effects of:						
(Income)/expenses not taxable/deductible in determining taxable profit and other items	**127**	**(170)**	**(43)**	93	27	120
Research and development tax credits	**(44)**	**–**	**(44)**	(196)	–	(196)
Difference in tax rates on overseas earnings	**377**	**93**	**470**	1,023	(58)	965
Adjustments to tax charge in respect of prior years	**(37)**	**(1)**	**(38)**	(72)	16	(56)
Effect of reduced rate on opening deferred tax	**(331)**	**–**	**(331)**	–	–	–
Gain on disposal of subsidiary not taxable	**–**	**(453)**	**(453)**	–	–	–
Total current tax	**2,284**	**42**	**2,326**	3,129	218	3,347

The main rate of UK corporation tax was reduced from 20% to 19% with effect from 1 April 2017. The Group's effective UK corporation tax rate for the year was therefore 19% (2017: 19.5%). The adjustments in respect of prior years relate to the finalisation of previous year's tax computations.

10. Discontinued operations

On 8 May 2018 the Group entered into a conditional agreement to dispose of Earthoil Plantations Limited which supplies ingredient solutions to the personal care industry. The disposal was effected as it was no longer core to Group operations and in order to generate cash flow for the expansion of the Group's other businesses. The disposal was completed on 31 May 2018, on which date control of Earthoil Plantations Limited passed to the acquirer.

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

	2018 £'000	2017 £'000
Revenue	**6,133**	8,376
Cost of sales	**(5,164)**	(6,834)
Gross profit	**969**	1,542
Administrative expenses	**(291)**	(283)
Operating profit	**678**	1,259
Net finance costs	**(42)**	(63)
Profit before taxation and exceptional items	**636**	1,196
Gain on disposal of subsidiary (note 15)	**2,382**	–
Profit before taxation	**3,018**	1,196
Taxation	**(42)**	(218)
Profit for the period attributable to owners of the Parent Company	**2,976**	978

Earnings per share from discontinued operations: Basic 1.05p (2017: 1.88p); Diluted 1.02p (2017: 1.82p).

During the year Earthoil Group contributed £0.7m (2017: £0.3m) to the Group's net operating cashflow, paid £0.2m (2017: £1.4m) in respect of investing activities and received £2.6m (2017: £0.4m paid) in respect of financing activities.

A gain of £2.4m arose on the disposal of Earthoil Plantations Limited, being the difference between the proceeds of disposal and the carrying amount of the subsidiary's net assets and attributable goodwill.

Included within the above results are operations which are expected to be sold, and have been classified as a disposal group held for sale and presented separately within the balance sheet.

The major classes of assets and liabilities comprising the operations classified as held for sale are as follows:

	2018 £'000
Property, plant and equipment	**425**
Inventories	**610**
Trade and other receivables	**523**
Deferred tax	**35**
Current tax	**5**
Total assets classified as held for sale	**1,598**

10. Discontinued operations (continued)

	2018 £'000
Trade and other payables	20
Total liabilities classified as held for sale	**20**
Net assets of disposal group	**1,578**

No gains or losses arose on the remeasurement of the assets of the disposal group.

11. Dividends

Equity dividends on ordinary shares:

	Dividend per share for years ended 30 September				
	2018 Pence	**2017 Pence**	2016 Pence	**2018 £'000**	2017 £'000
Interim dividend	**1.60p[2]**	1.45p[1]	1.35p[1]	**936**	1,461
Final dividend	3.50p[3]	**3.35p[2]**	3.00p[1]	**1,940**	1,564
	5.10p	4.80p	4.35p	**2,876**	3,025

1 Accounted for in the year ended 30 September 2017.

2 Accounted for in the year ended 30 September 2018.

3 The proposed final dividend for the year ended 30 September 2018 of 3.50 pence will be voted on at the Annual General Meeting on 25 January 2019 and will therefore be accounted for in the financial statements for the year ending 30 September 2019.

12. 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.

	2018	2017
Profit after taxation attributable to owners of the Parent Company (£'000)	12,229	9,545
Less: Profit from discontinued operations (£'000)	(2,976)	(978)
Profit from continuing operations attributable to owners of the Parent Company (£'000)	**9,253**	8,567
Weighted average number of ordinary shares in issue (No: '000)	56,758	52,198
Basic earnings per share – continuing and discontinued (pence)	**21.55p**	18.29p
Basic earnings per share – continuing (pence)	**16.30p**	16.41p

12. Earnings per share (continued)

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:

	2018 No ('000)	2017 No ('000)
Weighted average number of shares	57,423	52,780
Weighted average number of shares held in the EBT and SIP	(665)	(582)
Weighted average number of shares used for calculating basic EPS	56,758	52,198
Executive share option schemes	1,201	1,229
All-employee share options	301	445
Weighted average number of shares used for calculating diluted EPS	58,260	53,872
Diluted earnings per share – continuing and discontinued (pence)	20.99p	17.72p
Diluted earnings per share – continuing (pence)	15.88p	15.90p

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:

	2018 £'000	2017 £'000
Profit after taxation attributable to owners of the Parent Company	12,229	9,545
Adjusted for:		
Exceptional items (see note 8)	1,105	–
Taxation thereon	(130)	–
Less gain on disposal of subsidiary	(2,382)	–
Earnings for calculating adjusted earnings per share:		
From continuing and discontinued operations	10,822	9,545
Less: profit from discontinued operations before gain on disposal of subsidiaries	(594)	(978)
Adjusted earnings from continuing operations	10,228	8,567
Adjusted basic earnings per share (pence)		
Continuing and discontinued operations	19.07p	18.29p
Continuing operations	18.02p	16.41p
Adjusted diluted earnings per share (pence)		
Continuing and discontinued operations	18.58p	17.72p
Continuing operations	17.56p	15.90p

13. Share capital

Called up, allotted and fully paid	2018 £'000	2018 Number	2017 £'000	2017 Number
At start of year	**1,058**	**52,905,170**	1,053	52,655,170
Issued in year	**131**	**6,565,500**	5	250,000
At end of year	**1,189**	**59,470,670**	1,058	52,905,170

During the year the Parent Company issued 5,265,500 shares through a placing at a share price of £4.10 per share. In addition the Parent Company issued 230,000 (2017: 150,000) ordinary shares of 2p each to the Treatt SIP Trust for the purpose of meeting its obligations under an HMRC-approved share incentive plan in the UK as well as 1,070,000 (2017: 100,000) ordinary shares of 2p each to the Employee Benefit Trust for the purpose of meeting obligations under employee share option schemes.

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

14. Share premium account

	£'000
Balance at 1 October 2016 and 30 September 2017	2,757
Premium arising on issue of equity shares	**21,483**
Expenses of issue of equity shares	**(756)**
Balance at end of year 30 September 2018	**23,484**

As disclosed in note 13, during the period the company issued 5,265,500 ordinary shares of 2p each. These were issued at a share price of £4.10 per share, representing a premium of £4.08 per share.

15. Disposal of subsidiary

As referred to in note 10, on 31 May 2018 the group disposed of its interest in Earthoil Plantations Limited. The net assets of Earthoil Plantations Limited at the date of disposal were as follows:

	31 May 2018 £'000
Intangible assets	120
Inventories	4,382
Trade and other receivables	1,633
Bank balances and cash	3
Deferred tax assets	4
Current tax liability	(58)
Trade and other payables	(1,678)
Attributable goodwill	2,727
	7,133
Costs incurred during disposal	544
Gain on disposal	2,382
Total consideration	10,059
Satisfied by:	
Cash and cash equivalents	9,293
Completion settlement post year end	(267)
Deferred consideration	1,033
	10,059
Net cash inflow arising on disposal:	
Consideration received in cash and cash equivalents	9,293
Less:	
Cost incurred during disposal	(544)
Cash and cash equivalents disposed of	(3)
	8,746

There were no disposals of subsidiaries in 2017

The deferred consideration is expected to be settled in cash by the purchasers on or before 1 June 2019.

The impact of Earthoil Plantations Limited on the Group's results in the current period and prior period is disclosed in note 10.