TREATT

Annual Report & Financial Statements

2019

Our Purpose

Working at the cutting edge of the flavour and fragrance industry, we create outstanding sustainable solutions, designed around our customers' needs

We understand that everything we do has an impact on people and the environment, which is why we operate in an ethical and socially responsible way. With a deep-rooted respect for the world's resources, we are committed to ensuring a sustainable, fair and rewarding future for all our staff, suppliers and growers – wherever they live.

See our working responsibly report **on page 44**

SUSTAINABILITY

Contents

For more information view
www.treatt.com/about-us

1 Excluding discontinued operations, details of which are given in note 11 of the financial statements.
2 Excluding exceptional items, details of which are given in note 9 of the financial statements.
3 The dividends per share relate to the interim dividend declared and final dividend proposed in relation to the corresponding financial year.
4 Operating profit is calculated as profit before other losses, net finance costs, exceptional items and taxation.
5 The methods of calculating key performance indicators are shown on pages 26 and 27.

Highlights

	Revenue[1]
2019	£112.7m
2018	£112.2m
2017	£101.3m

Revenue[1]
£112.7m +0.5%

	Profit before tax and exceptional items[1]
2019	£13.3m
2018	£12.6m
2017	£11.7m

Profit before tax and exceptional items[1]
£13.3m +5.2%

	Dividend per share[3]
2019	5.50p
2018	5.10p
2017	4.80p

Dividend per share[3]
5.50p +7.8%

	Net operating margin[2,4,5]
2019	12.0%
2018	12.4%
2017	12.4%

Net operating margin[2,4,5]
12.0% -40bps

	Return on capital employed[2,5]
2019	19.0%
2018	18.5%
2017	22.1%

Return on capital employed[2,5]
19.0% +50bps

	Net cash/(debt) balance
2019	£16.0m
2018	£10.1m
2017	(£10.2m)

Net cash/(debt) balance
£16.0m +5.9m

Operational highlights

Good progress against our 2022 strategy

81% of Group revenues came from natural and clean-label product portfolio as we continue to diversify.

Profits up despite significant citrus and FX headwinds

Citrus revenue fell by 10% due to a substantial fall in raw material prices, whilst non-citrus revenue increased by 16% led by tea, health & wellness and fruit & vegetables categories.

Investing for future growth

We completed our investment in our US facility, doubling capacity in tea, health & wellness and fruit & vegetables categories, ready for the new crop season. New UK relocation project is now underway with completion due late 2020.

Strategic growth markets

The US continued to provide growth opportunities in the Group's largest beverage market; China revenues grew by 24% with new opportunities emerging.

Reducing our environmental impact

54% of Group revenues come from the citrus category where we use the by-product from the citrus industry which might otherwise be a waste product. We are now transporting goods as part of the Sustainable Shipping Incentive.

Strategy in action

Overview
Strategic Report
Governance
Financial Statements

At a Glance

We manufacture and supply a diverse portfolio of flavour and fragrance ingredients to our customers across the globe

Who we are

Founded in the UK in 1886, we create flavour and fragrance solutions designed around the needs of our customers.

Drawing upon extensive technical knowledge amassed over Treatt's 130 year history our experts work closely with customers across the global flavour, fragrance and consumer goods markets to help them create appealing and innovative products.

For more information view **www.treatt.com/about-us**

What we do

Our flavour and fragrance ingredients are present in countless food, beverage and fragrance products around the world.

Bringing together the expertise from our long history and a mindset that embraces continuous improvement and innovation, we are able to meet customer specifications with solutions that are off-the-shelf or bespoke, as appropriate.

INGREDIENT *Applications*

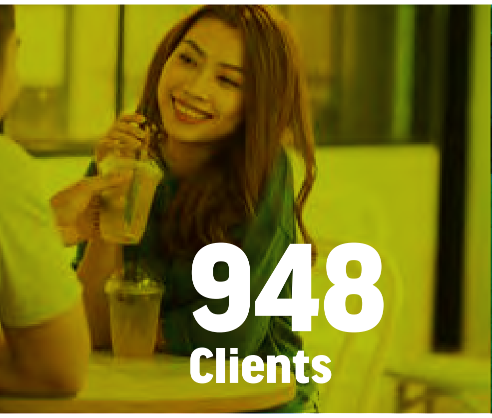
Our ingredients transform end products in a number of applications. Experts work with customers across a range of markets to identify how we can best support new product development or match customer needs with our range of exciting, high-quality solutions.

FRAGRANCE *Ingredients*

Our expansive range of fragrance ingredients and blends bring household products and fine fragrances to life. In today's competitive environment, brands rely on the power of perfume to entice consumers and drive sales. Our specialists support perfumers in the pursuit of the ideal ingredient that will make all the difference to the final blend.

FLAVOUR *Ingredients*

We manufacture and supply over 3,000 products to customers in over 90 countries. Our flavour ingredients are the result of over a century of knowledge, experience and innovation, developed with an inspirational modern twist.



Where we operate

We service customers in more than 90 countries from our core facilities in the UK, the US and China.

Our global footprint and our integrated supply chain, whereby we manufacture as well as process sourced material, give us flexibility and agility that is valued by customers.

See our Market Overview **on page 10**

Routes to market

We supply manufacturers of consumer goods, directly and also indirectly via our flavour and fragrance houses.

By working in partnership with our global customer base, we are able to grow our footprint in multiple diverse markets. With facilities in strategic locations across the world, we draw upon our knowledge of a region's consumer drivers as well as regulatory requirements to best serve our customers.

Product categories

Our portfolio is the result of over a century of knowledge, creativity and innovation.

We have a diverse product range made up of citrus, coffee, tea and health & wellness solutions as well as fruit & vegetable extracts, herbs, spices & floral ingredients and high impact and aroma chemicals. We provide everything from 100% natural products to tailor made blends and price-stable synthetics. With a strong background in citrus, our capabilities, expertise and ways of working are recognised and valued by those who need the best quality products at every level.

FLAVOUR HOUSES

These organisations buy our products and sell them on to FMCG (Fast-Moving Consumer Goods) customers. They look for competitive pricing and choose to work with us because of our technical, regulatory and application knowledge.

48%
sales

FMCG AND OTHER CLIENTS

We work closely with many of the global FMCG beverage brands, who are often international household names. They typically have multiple products under an umbrella brand and operate in several categories. They value our track record of innovation, technical knowledge and demonstrable market and regulatory awareness.

52%
sales

Why Invest in Treatt?

With longstanding customer relationships built upon our expertise and global presence, our clear strategy aims to create sustainable value for stakeholders

Recognised expertise

Renowned for our technical expertise, knowledge of ingredients and their origins, and market conditions, we are recognised as a leader in our field.

130+

years of knowledge and innovation

3

sites on three continents

See our Board of Directors **on page 56**

Diversified business

Our broad portfolio enables us to meet any customer specification, with ready-made or tailored solutions. We collaborate closely with our diversified customer base, and our value-added solutions are sold around the world.

90+

countries in which our solutions are sold

47%

of our revenue is from our top ten customers

See our Business Model **on page 14**

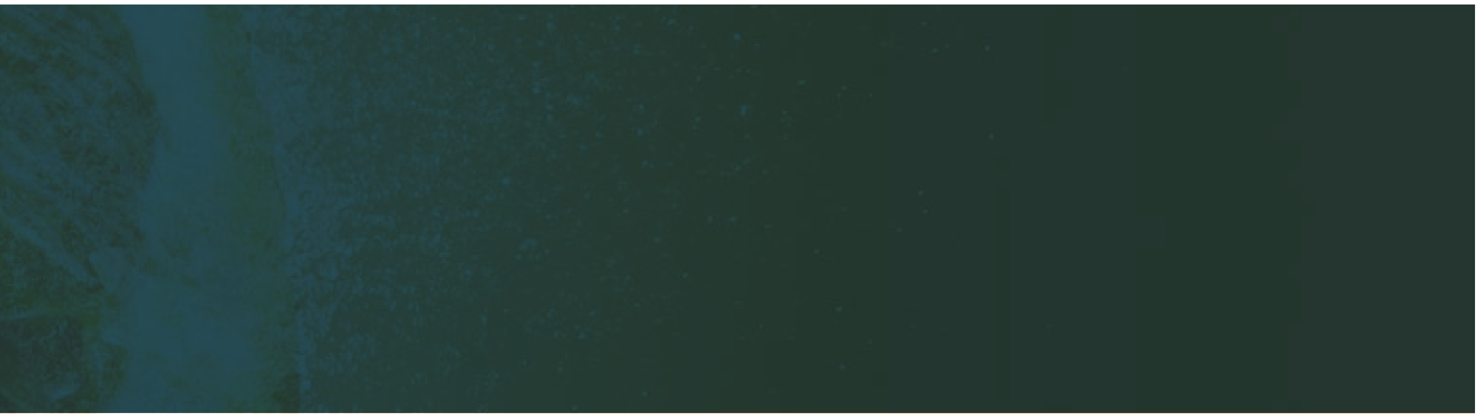
Clear strategy

Our 2022 growth plan includes a renewed strategic focus on our three core product categories of citrus, health & wellness and tea, which together represent 65% of revenues; and capital investment to accelerate the transition from an ingredients business to a value-added solutions manufacturer.

65%

of revenues represented by our three core categories

See our Strategy **on page 16**



Strong performance

We have a track record of sustained financial performance as a result of the focus and global alignment behind our shared strategy.

3yrs

early meeting the Group's 2020 strategic objectives

See our KPIs **on page 26**

Sustainable practices

We are continually looking at ways to minimise our impact on the environment and to build upon the positive effect we have on those that work for us and the communities in which we operate. The commitment to continuous improvement has a positive effect on our ability to meet strategic objectives and create long-term shareholder value.

0%

of general waste is sent to landfill

See our Working Responsibly report **on page 44**

Experienced management

Our Executive Directors have deep experience of the sector and are supported by a talented and ambitious senior management team within the business.

44yrs

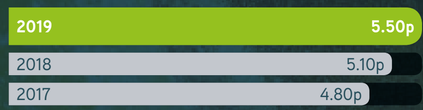
combined sector experience

See our Governance overview **on page 58**

Inside the Strategic Report

Chairman's Statement

A successful year with increased profits[1] and strong cash inflows



Dividend per share

5.50p

Performance

I am delighted to report increased profits[1] and strong cash inflows for the year. This performance is all the more notable in the context of the challenge created by the sharp fall in citrus oil prices during the year, combined with the effect of adverse foreign exchange headwinds. Treatt's largest product category, citrus, was impacted by one of the sharpest falls ever recorded in the commodity price of orange oil and consequently our strategy of diversifying our product portfolio has proven to be important in delivering the Group's seventh consecutive year of growth in profits[1]. To maintain revenues and grow profits[1] in the face of such market conditions is an extraordinary testament to the Treatt team and the passion and determination with which they work.

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

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

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

People, culture and stakeholder engagement

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

I have always operated an open-door policy; it is my view that teams which care about each other, the business and our communities work with greater pride and motivation which manifests itself in superior performance to the benefit of everybody. We formalised the Board's engagement with employees at the beginning of the year by putting in place Employee Voice sessions. At least every six months David Johnston, the Senior Independent Director, or I, hold well-publicised sessions during which colleagues can come to us individually or in groups. These forums enable staff to say whatever they wish, and the Board to be grounded in the real sentiments, views and issues that might be at hand. More information about the Board's engagement with stakeholders is outlined on page 63.

I was delighted that Treatt's success over the last seven years, since Daemmon Reeve became Chief Executive, was recently recognised through Daemmon being awarded an honorary doctorate by the University of Suffolk. This is testament to the way our community thinks of Treatt today and reflects the fact that contributing to the communities in which we operate is a value at the heart of our ethos. More detail about Treatt's community initiatives may be found on page 52.

Environmental, social and governance matters are ever more of mind for the Board as the business seeks to minimise its impact.

Board changes

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

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

1 Profits refers to profit before exceptional items and discontinued operations, details of which can be found in notes 9 and 11.

Learn about our Board activities **on page 58**

Site visit

This year the Board spent time with our growing applications team

The Board is committed to getting out into the business to meet with and learn from the excellent people we have across our different sites. Taking part in product tastings and learning about how Treatt's products work in application was brilliant.

Dividend

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

Outlook

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

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

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

Tim Jones
Chairman
25 November 2019

"To maintain revenues and grow profits[1] in the face of such market conditions is an extraordinary testament to the Treatt team and the passion and determination with which they work."

Market Overview

We sustainably grow our business in key markets with a diversified product portfolio that is aligned to long-term consumer trends

Introduction

The reach and strength of the health and wellness movement only increases. This now established mega-trend is driven by the mindful consumer seeking total wellbeing in all aspects of life. As a result, markets are diversifying, and new opportunities are arising on a global scale as healthy living becomes more complex.

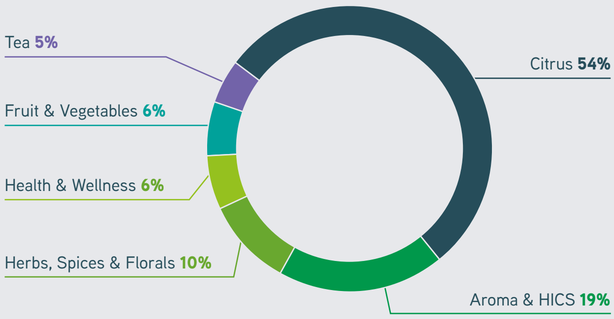
A generation of challengers are fuelling innovation and new product development across every beverage pillar. Consumer comfort zones are expanding as social media inspiration is blurring the lines between reality and #lifegoals as exposure to what was previously out of reach increases. The impact on the beverage industry is profound as emerging trends gain traction and drive strong commercial growth.

Douglas Rash
Group VP of Global Sales

Sales by category – 2019

Our diverse product range allows us to take advantage of opportunities in a range of markets.

The strength of our natural portfolio means we are well-placed to continue to grow our footprint in markets that demand clean-label solutions.



38%
CAGR for low/no alcohol RTD products in North America from 2018–2022

95%
of Spanish consumers are looking to reduce alcohol intake

1.8x
The Chinese economy will be 1.8x larger than the US by 2030

26%
Increase in products launched with a natural label claim

We utilise customer data and market insights to grow our global footprint in key markets

How is Treatt responding

We use robust market insights to drive our Sales strategy, innovation pipeline and product marketing campaigns.

Improving our understanding of the markets we operate in is an essential part of how our business will grow. In the last year, we have made investments in how we utilise market insights across the business.

Our global marketing department has increased its resource around data gathering and analysis and we have improved how this information is shared around the business as a result.

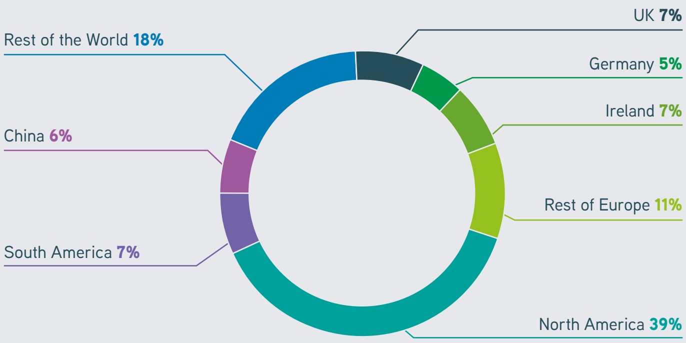
We have brought our commercial functions closer together, which now work in partnership with our category managers to drive smart product development and more effective marketing.

These changes to our internal structure have allowed us to become more agile at responding to trends, as well as better prepare the business for long-term market movements.

Sales by geography – 2019

We are growing our presence in all of our key regions.

Our global footprint enables us to provide our customers with a responsive regional service that exceeds their expectations.



Market Overview continued

North America

The need for natural, clean-label ingredients is becoming a top priority for consumers across almost every beverage pillar.

The North American beverage market is currently worth approximately $577bn and is forecast to grow to a value of $653bn by 2023, reflecting an 13% growth. Non-alcoholic beverages make up over 40% of this total.

The explosion of ready-to-drink (RTD) coffee, the premiumisation of alcoholic and non-alcoholic spirit variants and their mixers, as well as the rise of the seltzer continue to be of particular interest to our trend forecasters.

UK and Europe

Following the trends first seen in North America, the geographical diversity of Europe continues to produce creative opportunities.

The European beverage market is worth approximately €732bn and is forecast to grow to a value of €781bn by 2023, reflecting a 7% growth. Non-alcoholic beverages make up almost 30% of this total.

Several compelling trends continue to gain traction across the continent, with low sugar solutions driving innovation across all pillars.

With consumer preferences continuing to shift towards products that are perceived to be 'better for you', brands are innovating at pace to retain market share and compete with the rise of the entrepreneurial start-up.

Asia

A growing middle class and an increasing appetite for innovative flavour pairings is re-shaping the beverage landscape in Asia.

The Chinese beverage market was valued at ¥572.4bn in 2018, with bottled water and RTD tea making up the largest segments.

Younger consumers are driving dial-turning growth in several categories, including the energy drink, bottled water, sports drink and RTD coffee segments.

Performance-based drinks continue to gain traction, as well as those reported to have functional health benefits.

$270bn

2023 forecast value of the North American non-alcoholic beverage market

€781bn

2023 forecast value of the European beverage market

¥572.4bn

Current value of the Chinese beverage market

Product portfolio

Our diverse and growing product range allows us to maximise commercial opportunities across the world.

With a strong and established background in citrus, our range of natural and synthetic products are well aligned with consumer tastes.

Consumers continue to look for 'better for you' products and our clean-label solutions are performing well in this space.

Tea is the second most widely consumed beverage in the world, after water, and our natural range of tea products continue to win.

Trends in action

Low/no alcohol

As health-conscious consumers look to improve wellbeing in all areas of life, they are turning to low alcohol or alcohol-free beverages that allow them to indulge without sacrificing enjoyment.

Health is becoming a major influencer on all alcohol-related decision making. According to Global Data, more than 25% of global consumers report that an alcoholic beverage's effect on health and wellbeing always influences their product choice, with 50% stating it often/sometimes has an influence.

Alcoholic drinks represented $1.8tn in global spending in 2018. Non-alcoholic spirit variants are forecast as the key growth area with Global Data reporting a CAGR (Compound Annual Growth Rate) of almost 22% by 2023. Albeit this growth is from a small base, it reflects the strength of the health and wellness trend in driving mindful consumers towards 'better for you' products in indulgent markets such as alcoholic beverages.

Opportunities

This emerging growth market presents multiple opportunities for Treatt as brands are looking to incorporate 'better for you' ingredients like fruit extracts, tea and coffee as well as reduce sugar levels.

Naturalness wins

Shoppers have never been more aware of the ingredients they're consuming, where they are from and how they are processed. Clean-labelling, brand transparency and traceable provenance are key priorities and successful businesses are aligning to these core concerns in order to gain market share.

Brands are increasingly looking to take flavour off the label in order to appeal to this new generation of mindful consumers who want to enjoy beverages that they perceive to be from natural sources.

In the last two years, 23% of new products launched globally included a natural label claim which is an increase of 27% compared with just four years ago.

Opportunities

We provide 100% natural ingredients across our citrus, coffee, fruit & vegetables, tea, herbs, spices & florals and health & wellness product ranges. Our offering is known in the market for delivering true to flavour impact in a range of applications.

Sustainability matters

While plastic was the hottest topic in 2018, consumers' interest in sustainability is becoming much wider.

Environmentally friendly packaging is the top of a complex iceberg that also involves ethical supply chains, socially responsible manufacturing processes, diverse workplaces with fair pay and benefits for staff to name just a few.

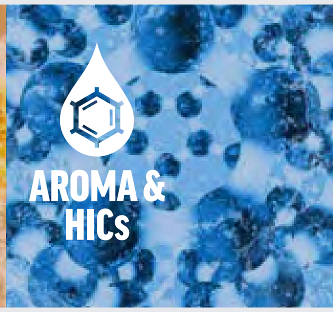
Brands are responding to the needs of the activist consumer whose social, political and personal concerns are directly affecting their purchasing decisions. Approximately 35% of global consumers say that how ethical/environmentally friendly/responsible a business is, will always/often influence their product choices which continues to create new opportunities for suppliers in this space. In addition to having a bearing on which products they will buy, data from Nielsen and Mintel indicates that consumers will pay more for products with sustainable credentials.

Opportunities

Our global procurement function offers secure, sustainable and strategic global sourcing in a way that mitigates risk for our customers while providing maximum traceability throughout every stage in the process.

Our natural distillates deliver on impact and clean-label requirements, both of which are increasingly important to consumers.

Botanical ingredients are growing in popularity in several markets as 'naturalness' continues to be an increasing priority.



Our chemicals business continues to perform well as our ability to deliver a consistent and high quality service stands us apart from other players.

Coffee is one of the quickest growing beverage categories in the world and we are well positioned to take advantage.

Our Business Model

Our simple business model delivers value to all of our stakeholders

CUSTOMER CENTRICITY

Our business is structured around effectively understanding and meeting the complex, evolving needs of our global food, beverage and fragrance customers. Every department is driven by a common goal of delivering excellence.

FOCUSED STRATEGY

Our clear strategy provides focus for our global business, our employees and our customers. Strong and experienced leadership, supported by a diverse and passionate management team, provide clarity and purpose in all areas of the Group.

DIVERSE ROUTES TO GROWING MARKETS

We have a presence on three continents and our 3,000 products are enjoyed by consumers in over 90 countries. The broad appeal of our product offering allows us to capitalise on growth opportunities in several competitive markets. As well as our sales direct to end-users, we also sell to flavour and fragrance houses, traders and distributors.

TECHNICAL EXCELLENCE

The sharpest minds across research and development, applications, quality assurance and quality control deliver unrivalled technical solutions for our customers, challenging what is possible in our industry. Treatt supplies ready-made and bespoke solutions, with particular expertise in coffee, citrus, tea and sugar reduction. Over 75% of our revenues are from value-added products, with the remainder generated through trading in raw materials.

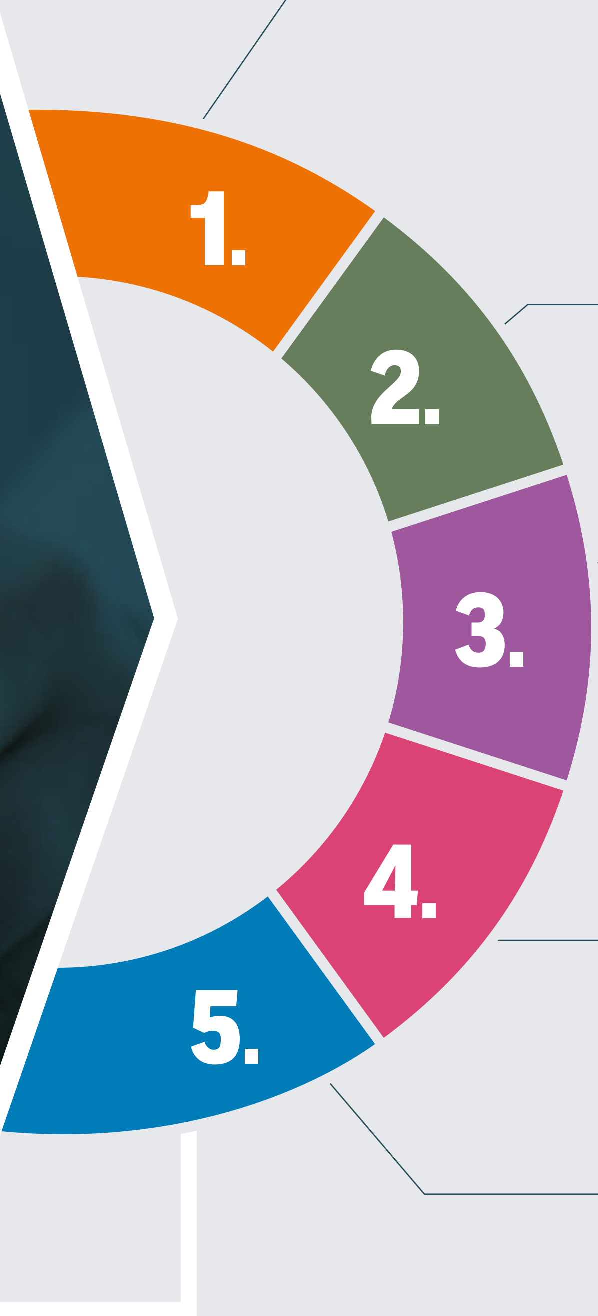
RESPONSIBLE MANUFACTURING

From our facilities in the UK and US we manufacture and also process sourced material to create consistently high-quality products.

SUSTAINABLE SOURCING

Working directly with growers, processors and suppliers across the world guarantees the finest quality raw materials and standards of production. We work hard to develop and maintain a transparent and stable supply chain, mitigating risk, maintaining integrity and providing maximum traceability.

How we share value with our stakeholders



EMPLOYEES

Empowering culture, opportunities for training and development, and a safe working environment.

226
courses attended throughout the year as we continually invest in employee development

399[1]
Number of employees

INVESTORS

Consistent growth in shareholder returns.

Dividend Growth over five years

43% (7.4% p.a.) equivalent annual dividend growth rate over the last five financial years

CUSTOMERS

Tailored product range and service, built on our technical and regulatory expertise, quality standards and market intelligence.

Positive experience and great service at the forefront of our qualitative customer feedback

A Flavour and Fragrance customer, has recently said that they have been very impressed with the level of customer service provided by Treatt stating that we are 'head and shoulders above our competitors'.

SUPPLIERS

Sustainable, fair and rewarding outcomes for growers and processors.

Supplier visits

32

COMMUNITIES

Donations of time, expertise and money to charities and causes that matter to our employees and their families.

Group donations

£41,200

Number of community projects

20

1 Actual number of employees at the year-end date. This differs to the headcount in note 6 to the financial statements which is the average number of employees during the year measured on a full time equivalent basis.

Ambition & Strategy

We have a clear strategy for growth

1 Investing in our core categories

We are recognised by customers around the world for our expertise, and have a particularly long and reputable history in citrus, tea and health & wellness categories, where our natural and authentic solutions are valued by consumers.

During the year we continued to develop the global multidisciplinary teams for our established categories, bringing together functions including process control, procurement, sales and marketing to maximise our commercial effectiveness.

We also added new skills to our R&D and sales teams as we seek to work ever more closely with customers to develop innovative solutions.

2 Diversifying into new categories

We recently entered the coffee market, one of the biggest growth segments in the global beverage market. Having recruited coffee specialists with both technical and sourcing expertise, we developed proprietary technology that enables the flavour and freshness of coffee to be retained. Initial feedback from customers has been very positive, and we look forward to developing our offering in this high growth segment.

We have continued to broaden our portfolio as opportunities have aligned with our capabilities, and have seen attractive growth in categories including tea, health & wellness and fruit & vegetables. Overall revenues from our non-citrus portfolio grew by 16% during the year.

3 Investing for future growth

An important focus is on enhancing our operations to provide a sound platform for growth. During the year we completed a $15m investment in our US operation to increase manufacturing capacity and to expand our R&D facilities. Work on our new UK headquarters is underway, and we plan to complete our relocation in late 2020. This will add significant capacity and enable operational efficiencies.

Beyond our most established markets, our activities in China have been strengthened by our investment in the region. We continue to monitor progress against our strategy to ensure we remain in a strong position to serve this important region.

8.5%
increase in R&D and Sales team headcount

16%
growth in non-citrus revenues

$15m
investment in US operations

Our objective

We will reach our newly extended goals by building on the successes of our proven strategy

4 Investing in our culture

Treatt's supportive, collaborative culture is integral to the Company's success, and we are proud of all that we do to nurture and develop our people.

To support staff development and encourage a performance culture in a consistent and transparent way, during the year we introduced a UK-wide performance management framework providing all employees with an opportunity to review performance and set objectives for the year ahead.

Read more **on page 42**

5 Engaging with our communities

Undertaking a wide range of fundraising and volunteering activities, Treatt is an active contributor to our local communities as well as to national causes.

Over the years, we have worked with schools and colleges, not only to deepen relationships with our communities but also as a means of enhancing our future talent pool. An example new initiative in collaboration with a local school will see us hosting exchange students from Shanghai in our UK office, and the British students will spend time in our office in Shanghai.

Read more **on pages 52 and 53**

6 Reducing our environmental impact

Environmental considerations are seen as the responsibility of all staff, and we strive to maximise our efficiency across the business, whether in the usage of energy and fuel, or the recycling and disposal of waste.

In addition to our ongoing efforts to minimise our impact, example initiatives undertaken during the year included increasing the proportion of our volumes transported via logistics groups working as part of the Sustainable Shipping Incentive.

Read more **on pages 45 to 48**

100%

UK employee engagement in performance review process

"Our visit to Treatt was great. It was a hugely beneficial experience for the UK and Chinese students taking part in our prestigious leadership programme. The students got so much from their visit and Treatt staff were amazing."

Mr. E, King Edward VI School,
Bury St. Edmunds

0%

of general waste to landfill

Read more about our KPIs **on page 26**


TREATT

Strategy in Action

Investing in future growth

The expansion of our US facility and the relocation of our UK facilities represent the largest investments in our future growth to date.

These landmark milestones will transform almost every aspect of our business and facilitate our continued sustainable growth.

LAKELAND, FLORIDA

Our expanded US facility opened in March 2019, having been completed on time and to budget. The site provides a 50,000sq ft manufacturing space and a 15,000sq ft state of the art laboratory and office complex. The expansion has doubled capacity across all product categories, most notably in tea and health & wellness, as well as almost quadrupling the size of our technical centre.

The employee base has tripled in size since the business moved from Haines City to Lakeland in 2002, illustrating the importance of our role as a key employer in the region.

Positioned for future growth, the modular design of the site allows for additional expansion which supports our long-term goals.

Expanded facility	Completed
130,500sq ft	**March 2019**

BURY ST. EDMUNDS, ENGLAND

Construction is underway and is on schedule following the appointment of Readie, the principal contractor, earlier in the year. The Company celebrated with a ground-breaking ceremony in September, attended by staff, senior management and local dignitaries.

The 112,000sq ft new building will include cutting edge laboratories, manufacturing areas, offices, breakout spaces and a catering facility. It will replace the existing complex of buildings on Northern Way, which has served as the Company's UK headquarters since the 1970s.

The new facilities will greatly increase the efficiency of our UK operations, delivering optimum results for our customers while also providing a significantly improved, modern working environment in which the Treatt community will flourish.

Complex	Completion date
112,000sq ft	**Late 2020**

Strategy in Action

Growth in China

Rising affluence in the middle classes, patterns of urbanisation and increasingly youthful populations are all contributing to new, fast-growing trends in the beverage industry across China.

Driven by tastes influenced by Western culture, health and wellbeing are starting to become greater concerns for consumers. Younger generations are leading the charge for low sugar, healthy beverages that fit in with their broader lifestyle. Exciting, novel and fresh ingredients appeal to a powerful consumer population who will wait in line for the latest 'must-share' drink experience.

Brands are adapting to shifting consumer tastes as new product development pipelines shorten, reflecting the growing competition for consumer spend on ready-to-drink (RTD) beverages.

The Chinese beverage market is currently worth

¥572.4bn

Energy drinks, bottled water, sports drinks and RTD coffee are all seeing year on year growth of more than

5%

Strategy in Action

Diversifying into new categories: Coffee

Our innovative portfolio of coffee extracts are re-defining what's possible in this fast-growing industry.

Coffee is one of the most exciting and diverse beverage categories in the world today. This multi-billion-dollar industry is driven by a varied and growing population of consumers who are united in their deep attachment to this once simple drink.

We have extended our capabilities in this space, partnering with our customers to deliver stand-out products in a crowded and competitive marketplace. Our experts artfully interpret a customer brief, crafting a blended solution that takes taste profile, naming and regional requirements and desired caffeine levels into account.

The global coffee market is expected to reach a valuation of

£102bn

by growing at a CAGR of

4.3%

by 2023

Chief Executive's Review

Building a platform for growth

Summary

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

Delivering sound performance

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

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

Diversifying our portfolio

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

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

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

Investing in our infrastructure

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

"To have delivered such strong results during a period of unprecedented turbulence in key raw material markets is a remarkable achievement, and a demonstration of the commitment and expertise of my colleagues."

Financial highlights for 2019

	Revenue[1]	Profit before tax and exceptional items[1]	Net operating margin[1,2]
2019	£112.7m	£13.3m	12.0%
2018	£112.2m	£12.6m	12.4%
2017	£101.3m	£11.7m	12.4%

Revenue[1]
£112.7m

Profit before tax and exceptional items[1]
£13.3m

Net operating margin[1,2]
12.0%

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

Addressing market challenges

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

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

Capitalising on market opportunities

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

Operating responsibly for our stakeholders

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

We have always believed in doing the right thing for all our stakeholders and the communities in which we operate, and we work hard to be active, responsible participants in our communities and to minimise our environmental impact. I was proud to have been awarded an honorary doctorate by the University of Suffolk which reflects not only our success in business but also the way our business conducts itself in the wider community, details of which are outlined on pages 52 and 53.

Looking forward with confidence

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

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

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

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

Daemmon Reeve
Chief Executive Officer
25 November 2019

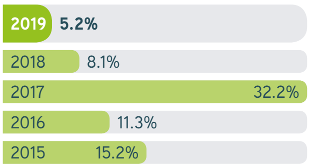
1 Excluding discontinued operations, details of which are given in note 11 of the financial statements.
2 For details of how this has been calculated see the key performance indicators on page 26.

Key Performance Indicators

We assess Group performance using a set of financial and non-financial KPIs

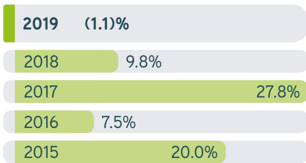
The Group has financial KPIs which it monitors on a regular basis at Board level and, where relevant, at operational executive management meetings. The key performance indicators shown below cover a period of five years which is reflective of the Board's long-term thinking.

1 Growth in profit before tax and exceptional items[1]



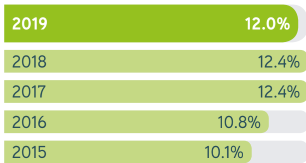
5.2%

2 Growth in adjusted[1] basic earnings per share



(1.1)%

3 Net operating margin[1]



12.0%

	1 Growth in profit before tax and exceptional items[1]	2 Growth in adjusted[1] basic earnings per share	3 Net operating margin[1]
Description	Profit before tax and exceptional items is considered the most appropriate measure of the underlying performance of the Group.	Adjusted earnings per share is considered the most appropriate measure of performance which is aligned with shareholder value.	Net operating margin is considered an important measure of the profitability of the Group.
Why we measure it	Profit before tax shows the underlying performance of the business for the year. We have a clear policy on exceptional items to ensure that only items (both positive and negative) which would otherwise distort the reported performance are excluded.	Earnings per share is widely considered one of the most important metrics used by investors in order to place a value on a company and therefore in turn impact upon the share price. It lets shareholders know how much profit was made for each share they own.	Net operating margin shows the operating profit as a percentage of revenue. This enables comparison between different businesses. As it takes into account all the day-to-day costs incurred in operating the business it demonstrates whether growth in the business is profitable.
Calculation	As shown in the Group income statement.	As shown in the Group income statement.	We divide operating profit by revenue from continuing operations both of which are shown in the Group income statement.

1 All KPIs are calculated excluding exceptional items (see note 9). They also exclude discontinued operations in 2017, 2018 and 2019 – earlier years have not been restated for discontinued operations.

4 Return on capital employed[1]

Year	Return on capital employed
2019	19.0%
2018	18.5%
2017	22.1%
2016	24.6%
2015	22.1%

19.0%

Return on capital employed is an important measure used to assess the profitability of the Group relative to the capital being utilised.

Return on capital employed enables stakeholders to see the profitability of the business as a function of how much capital has been invested in the business.

We divide operating profit from continuing operations (as shown in the Group income statement) by the capital employed in the business which we calculate as total equity (as shown in the Group balance sheet) plus net debt or minus net cash (as shown in the Group reconciliation of net cash flow to movement in net cash).

5 Average net cash/(debt) to EBITDA[1]

Year	Average net cash/(debt) to EBITDA
2019	0.87
2018	(0.01)
2017	(0.42)
2016	(0.35)
2015	(0.78)

0.87

Average net cash/(debt) is used to ensure that the level of debt is appropriate relative to the profits generated by the business.

It is important to ensure that the level of borrowings in the business can be supported by the cash flow in the business. EBITDA is widely recognised as a good indicator of the cash generative performance in the year.

We divide the average net cash or debt in the year (being the average of the opening and closing net cash or debt as shown in the Group reconciliation of net cash flow to movement in net cash) by EBITDA. EBITDA is the profit before interest, tax, depreciation and amortisation. This is calculated as operating profit (as shown in the Group income statement) plus depreciation and amortisation from continuing operations as shown in note 5 to the financial statements.

6 Number of reportable accidents across Group

Year	Number of reportable accidents
2019	5
2018	4
2017	3
2016	2
2015	5

5

The number of reportable accidents is used to monitor the safety of our working environment.

The health and safety of our employees is of paramount importance to us. Recording accidents, which includes those that are reportable, assists with their prevention and encourages a focus on safety.

We record the number of reportable accidents, which have occurred across the Group. Reportable accidents are work-related accidents, which legally have to be reported to a statutory body or have to be recorded in a specific format.

7 Average number of sick days per employee

Year	Average sick days per employee
2019	3.00
2018	2.86
2017	3.06
2016	4.29
2015	3.66

3.00

Average number of sick days enables us to monitor the welfare of our workforce and the effectiveness of our absence policies.

The recording of sickness is essential for proactive absence management, which can help to reduce sickness absence and ensure that employees are healthy and working effectively.

We divide the total number of sick days recorded across the Group by the total number of employees.

See Our Strategy on **page 16**

Financial Review

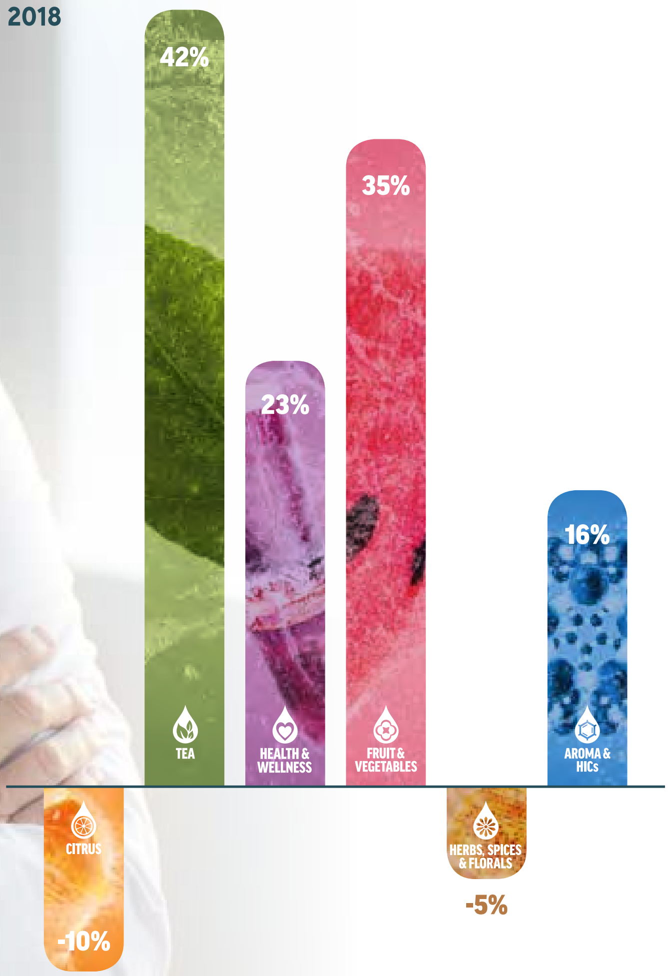
Profit before tax and exceptional items[1] up 5.2% despite citrus and foreign exchange headwinds

Income statement[1]

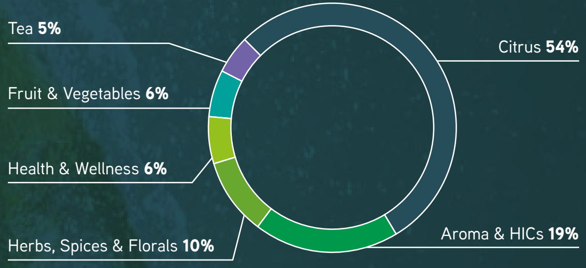
Revenue and profit

Revenue for the year from continuing operations grew by 0.5% to £112.7m (2018: £112.2m) with growth continuing across the Group's main product categories other than citrus. Revenue in citrus (which represents 54% of Group sales) fell by 10% as the result of a sharp fall in orange oil prices as well as lower lemon oil prices. Across non-citrus categories, revenue grew by an encouraging 16% with tea (42% growth), health & wellness (23% growth), and fruit & vegetables (35% growth) driving performance. In other categories, whilst more than 80% of the Group's revenue comes from our natural and clean-label product ranges, there was also strong growth in our synthetic flavour chemical range of 16% in the year.

% Growth in sales – 2019 v 2018



Categories
% Share of sales[1] – 2019



Geography
% Share of sales[1] – 2019

Whilst herbs, spices & florals revenue fell by 5%, this category contains a large, traditional range of SKUs, many of which are traded. In constant currency terms, revenue from continuing operations fell by 1.9%, with 2.4% of the revenue growth being reflective of a weaker Pound Sterling/US Dollar exchange rate in 2019 as compared to 2018.

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

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

Administrative expenses grew by 9.7% in the year to £15.2m (2018: £13.8m), although on a constant currency basis the increase was lower at 7.5%. Of the £1.4m increase in administrative expenses, £0.6m related to the net adverse movement in foreign exchange gains and losses compared to the prior year, and £0.6m was driven by higher employment costs (see note 6), impacted by increased headcount numbers across the Group – up by 9% globally. The Group continues to focus its recruitment on highly skilled scientists and on growing the sales force in order to support growth in the business.

Net operating margin[2] was down slightly in the year at 12.0% (2018: 12.4%). This compares to 10.1% five years ago. Consequently, operating profit[1] decreased by 3.2% to £13.5m (2018: £13.9m).

Return on capital employed[2] increased to 19.0% (2018: 18.5%) as a consequence of the cash generated in the year reducing the amount of capital employed.

As plans continued to progress towards the relocation of the Group's UK headquarters to a new ten-acre site in Bury St. Edmunds, an accelerated depreciation charge of £0.2m (2018: £0.2m) was applied to those assets at the current site which will no longer generate value for the business. In addition, costs relating to the relocation were incurred during the year totalling £0.6m (2018: £0.9m). These included legal fees, planning consultants, architects and manufacturing plant and machinery specialists. Together these expenses total £0.8m (2018: £1.1m) and are included in exceptional items (see note 9).

Profit before tax and exceptional items from continuing operations rose by 5.2% to £13.3m (2018: £12.6m). Earnings before interest, tax, depreciation and amortisation (EBITDA) for the year[2] increased by 2.0% to £14.9m (2018: £14.6m).

"Across non-citrus categories, revenue grew by an encouraging 16% with tea (42% growth), health & wellness (23% growth), and fruit & vegetables (35% growth) driving performance."

1 Unless indicated otherwise all measures are based on continuing operations.

2 For details of how this has been calculated, see the Key Performance Indicators on pages 26 and 27.

Financial Review continued

The total dividend per share for the year of 5.50p represents an increase of 7.8% and is covered more than three times

Foreign exchange gains and losses

Whilst the Group's functional currency is the British Pound ('Sterling'), the amount of business which is transacted in other currencies creates foreign exchange exposure, particularly the US Dollar and, to a more limited extent, the Euro. During the year the US Dollar gradually strengthened against Sterling ending the year 5% stronger at £1=$1.23 (2018: £1=$1.30). As explained further under 'Financial Risk Management' as set out on page 34, the Group hedges its foreign exchange risk at our UK business by holding and managing US Dollar borrowings and taking out forward currency contracts and options. This can result in timing differences in the short-term, giving rise to re-translation gains or losses in the income statement. This has resulted in a loss on foreign exchange contracts and re-translation losses in aggregate of £0.8m (2018: £1.1m loss). There were no ineffective hedges in the year (2018: £0.7m loss) – see note 7.

There was a substantial currency impact, a gain of £2.1m (2018: £0.9m gain), in the 'Statement of Comprehensive Income' in relation to the Group's investment in overseas subsidiaries, principally in respect of Treatt USA.

Finance costs

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

Group tax charge

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

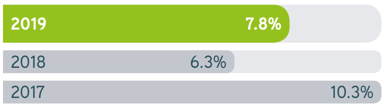
Discontinued activities

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

Earnings per share

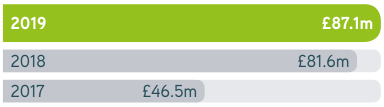
Adjusted basic earnings per share excluding exceptional items and discontinued operations, (as set out in notes 9 and 11 respectively) for the year decreased by 1.1% to 17.82p (2018: 18.02p). This small reduction in earnings per share resulted from a 1.5% increase in the overall effective tax rate and the full year effect of the 10% placing and LTIP exercises in the prior year. The calculation of earnings per share excludes those shares which are held by the Treatt Employee Benefit Trust (EBT) and Treatt SIP Trust (SIP) which are not beneficially owned by employees since they do not rank for dividend, and is based upon adjusted profit after tax.

"The Group's net finance costs fell by 65% to £0.20m as the Group remained cash positive in the year."



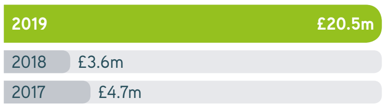
Dividend growth per annum

7.8%



Net assets

£87.1m



Cash inflow from operations

£20.5m

Dividends

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

Balance sheet

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

Cash flow

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

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

Inventory held at the year-end was £36.8m (2018: £39.6m), a decrease of £2.8m. The level of inventory, which is highly significant in cash terms, arises because as an ingredients specialist, Treatt takes many annual, and in some cases longer-term, contracts with customers as well as servicing the immediate spot needs of its diverse customer base. The success of the business has been built upon managing geographic, political and climatic risk of supply for our customers by judicious purchasing and inventory management to ensure continuity of supply and availability. Therefore, it is part of the Group's business model to hold significant levels of inventory.

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

The cash flow benefit of delaying certain capital projects in the UK in anticipation of the new site will inevitably reverse (as explained later) as both delayed projects, and brought forward capital expenditure, will occur as part of the site relocation.

Net cash position

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

US site expansion

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

Financial Review continued

A strong cash performance in the year puts the Group in an even stronger position to drive future investment and growth

UK relocation

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

As previously announced, the table on page 33 breaks down the cost estimates for the project. As well as the land and buildings infrastructure the project also involves significant investment in new and upgraded plant and machinery, including the incorporation of a number of new technologies for the UK business such as automated warehousing, clean-in-place and computer-controlled stills. As a business we keep abreast of new technologies which can add value to our operations and the move gives us the opportunity to incorporate some of these in the design and build of the new facility. Of the £16.9m of planned plant and machinery capex at the new UK site, approximately £7m relates to projects which would have been undertaken at the current site in the last five years, had the impending site move not been on the horizon; the balance relates to new and enhanced technologies.

Treatt Employee Benefit Trust and Treatt SIP Trust

The Group has an HMRC-approved Share Incentive Plan (SIP) for its UK employees, and as far as practicable, also offers a similar scheme to its US staff. All UK staff with a year's service were awarded £600 (2018: £575) of 'Free Shares' during the year as part of the Group's employee incentive and engagement programme as the Board is firmly of the view that increased employee share ownership is an important tool for driving positive employee engagement in the business. A similar scheme exists for US staff who were awarded $900 (2018: $875) of Restricted Stock Units during the year. These shares are forfeited by employees who leave within three years from the date of grant.

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

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

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

Under the Long Term Incentive Plans which were approved by shareholders at the 2014 and 2019 Annual General Meetings, Executive Directors and certain key employees were granted 251,000 (2018: 205,000) nil cost share options during the year which will vest after three years on a sliding scale, subject to performance conditions. In total, options were granted over 401,000 (2018: 341,000) shares during the year, whilst 760,000 (2018: 873,000) were exercised from options awarded in prior years which have now vested.

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

Final salary pension scheme

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

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

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

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

2019	£14.9m
2018	£14.6m
2017	£14.1m

EBITDA[1]

£14.9m

2019	£2.1m
2018	£1.7m
2017	£1.4m

Investment in R&D

£2.1m

2019	£10.6m
2018	£6.6m
2017	£5.2m

Capital investment

£10.6m

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

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

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

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

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

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

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

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

1 For details of how this has been calculated, see the Key Performance Indicators on page 27.

Financial Review continued

We have continued to invest in people as employee numbers in the UK and US have grown by 9%

Financial risk management

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

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

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

Firstly, the value of the foreign currency net assets of Treatt USA (the Group's main overseas subsidiary) can fluctuate with Sterling.

Secondly, with R C Treatt (the Group's main UK subsidiary) exporting throughout the world, fluctuations in the value of Sterling 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 the relative strength of Sterling against the US Dollar that is of prime importance. As well as affecting the cash value of sales, US Dollar exchange movements can also have a significant effect on the replacement cost of stocks, which affects future profitability and competitiveness.

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

Summary

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

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

Richard Hope
Chief Financial Officer
25 November 2019

"Excluding the impact of the expenditure on the US expansion and UK relocation, free cash flow was a very strong £16.3m for the year."

Group Five Year Trading Record

[1] 2017, 2018 and 2019 show discontinued operations separately. Earlier years have not been restated.	2015 £'000	2016 £'000	2017[1] £'000	2018[1] £'000	2019[1] £'000
INCOME STATEMENT					
Revenue	85,934	88,040	101,250	112,163	112,717
EBITDA[1]	10,109	11,038	14,083	14,577	14,871
Operating profit	8,690	9,549	12,547	13,944	13,499
Profit before taxation and exceptional items	7,950	8,846	11,696	12,642	13,300
Growth in profit before taxation and exceptional items	15.2%	11.3%	32.2%	8.1%	5.2%
Exceptional items	(174)	(553)	–	(1,105)	(755)
PROFIT BEFORE TAXATION	7,776	8,293	11,696	11,537	12,545
Taxation	(1,786)	(2,144)	(3,129)	(2,284)	(2,673)
Discontinued operations	–	–	978	2,976	(1,084)
Profit for the year attributable to owners of the Parent Company	5,990	6,149	9,545	12,229	8,788
BALANCE SHEET					
Goodwill	1,075	2,727	2,727	–	–
Other intangible assets	661	637	604	752	845
Property, plant and equipment	10,998	11,361	14,821	20,038	29,485
Net deferred tax (liability)/asset	(390)	325	616	672	(319)
Current assets	45,045	54,435	68,230	102,402	98,158
Current liabilities	(13,481)	(16,388)	(27,003)	(35,781)	(28,905)
Non-current bank loans	(7,065)	(7,755)	(7,293)	(3,001)	(4,369)
Post-employment benefits	(2,959)	(7,401)	(5,821)	(3,457)	(7,788)
Non-current derivative financial instruments	(699)	(754)	(403)	–	–
Total equity	33,185	37,187	46,478	81,625	87,107
CASH FLOW					
Cash generated from operations	8,667	10,804	4,683	3,581	20,544
Taxation paid	(1,469)	(2,022)	(2,822)	(2,978)	(2,208)
Net interest paid	(740)	(703)	(913)	(610)	(199)
Dividends paid	(1,978)	(2,095)	(3,025)	(2,876)	(3,080)
Additions to non-current assets net of proceeds	(1,027)	(788)	(5,203)	(6,579)	(10,570)
(Acquisition)/disposal of subsidiaries	–	(752)	(900)	8,746	1,033
Purchase of redeemable loan notes	–	–	(675)	–	–
Net sale of own shares by share trust	180	265	355	586	526
Proceeds on issue of shares	–	–	–	20,833	14
Other	(204)	(208)	(71)	(419)	(161)
Movement in (debt)/cash	3,429	4,501	(8,571)	20,284	5,899
Total net (debt)/cash	(6,155)	(1,654)	(10,225)	10,059	15,958
RATIOS					
Net operating margin[3]	10.1%	10.8%	12.4%	12.4%	12.0%
Return on capital employed[4]	22.1%	24.6%	22.1%	18.5%	19.0%
Average net (debt)/cash to EBITDA[5]	(0.78)	(0.35)	(0.42)	(0.01)	0.87
Adjusted[2] basic earnings per share	11.94p	12.84p	16.41p	18.02p	17.82p
Growth in adjusted[2] basic earnings per share	20.0%	7.5%	27.8%	9.8%	(1.1%)
Dividend per share[6]	4.04p	4.35p	4.80p	5.10p	5.50p
Dividend cover (adjusted to exclude exceptionals)[6]	2.94	2.94	3.40	3.42	3.22
Net assets per share	63.0p	71.0p	87.9p	137.3p	144.8p

Notes:

1 EBITDA is calculated as profit before interest, tax, depreciation, amortisation and exceptional items.

2 All adjusted measures exclude exceptional items – see note 9.

3 Operating profit divided by revenue.

4 Profit before interest, taxation and exceptional items divided by total equity plus net debt.

5 Average of net (debt)/cash at start and end of financial year divided by EBITDA[1].

6 The dividend per share shown relates to the interim dividend declared and final dividend proposed for the corresponding financial year.

Principal Risks and Uncertainties

The Board has overall responsibility for the management of risk at Treatt

This includes the establishment of an appropriate risk culture, setting the Group's risk appetite and overseeing its risk management and internal control systems. Day-to-day risk management is delegated to the Executive Directors who work closely with senior management teams in reviewing and monitoring risk and mitigation strategies across the business.

Risk appetite is an expression of the type and amount of risk we are willing to accept to achieve our strategic objectives. The Board sets the appetite for risk across the business by reviewing and challenging the risk register, ensuring that risks are considered and mitigated to an appropriate degree and that they are consistent with the strategic objectives of the business. The register inherently defines the level of risk the Board is content for the business to be subjected to and is a key consideration in decision-making across the Group. It also helps to define and monitor the actions required to mitigate our risks. Effective risk management is embedded in the culture of the Group and the way in which we do business.

We operate in a competitive market and recognise that strategic, commercial and investment risks may be incurred in seizing opportunities and delivering results. As a consequence, we are prepared to accept certain risks in pursuit of our strategic objectives, but acceptance of these risks is subject to ensuring that potential benefits and risks are fully understood, and appropriate mitigation strategies are in place to minimise the effects of these risks, should they materialise. An understanding of risk encourages clear decision-making.

Board review of risk

Every year the Board identifies risks from the Board risk register for review in greater detail. This year the Board reviewed the risks associated with a potential loss of key members of staff, loss of a significant agreement with a supplier and the risks and opportunities associated with consolidation within the flavour industry, following a number of high profile acquisitions. The risk owners presented their mitigation strategies to the Board, providing the Board with an opportunity to challenge and ensure that appropriate mitigation is in place and is effective. Having now undertaken detailed reviews of eight key risks since 2017, the Board is content that risk mitigation is inherent in the Group's policies and procedures and that those responsible for risk explore ways of continuously improving our internal systems to ensure that we work within the risk appetite set by the Board.

The Board has also conducted a review of the effectiveness of the Group's system of internal controls. The Board reviewed and discussed a paper on the Group's internal controls, covering all material controls, including those which are financial, operational and compliance related. The Board has monitored and reviewed the effectiveness of the Group's overall approach to risk management and has solicited the views of a number of senior managers relating to commercial and financial matters and the management of those risks. The Board has concluded that it has taken all reasonable steps necessary to satisfy itself that the current risk management procedures for identifying risks and considering risk mitigation are appropriate.

Last year the Board reviewed the process of risk management and whether risk should fall within the remit of the Audit Committee, with the Board retaining overall responsibility. It was decided that risk management should remain with the full Board but as the Group continues to grow, this will remain under review.

External risks

Foreign exchange continues to be a risk to the business which requires managing. The majority of the Group's raw material purchases are made in US Dollars as are the majority of the Group's sales. The Group has hedging policies in place which mitigate the impact of movements in the US Dollar exchange rate. Further information on how the Group manages its foreign exchange risk is given in the Financial Review on pages 28 to 34.

Following the decision of the United Kingdom to leave the European Union (EU) the Board and management team have continued to monitor the impact that this may have on the business and beyond the impact of currency movements there remains, to date, no visible impact on the business from Brexit. Whilst the debate about Britain's exit from the EU continues, management believes that Treatt's global footprint gives the required flexibility to face any challenges that may arise.

We will continue to monitor the situation regarding Brexit closely, including the following areas of potential impact on our business:

- Short-term volatility in exchange rates. The continued weakness of Sterling against the currencies in which the Group trades, compared with pre-Brexit referendum levels, would be positive for revenues and profitability. With the increasing revenue flows from our US business, which continues to grow, Treatt has benefitted from the strengthening of the US Dollar in this respect and we regard a stronger, but stable US Dollar as being beneficial for our business. As Richard Hope reports in more detail in his Financial Review, our foreign exchange (FX) hedging model mitigates short-term volatilities. A large majority of our inventory is US Dollar denominated. Our policy is to hedge a material proportion of estimated net foreign currency cash flows, on a rolling basis.
- Increases or decreases to import or export tariffs both with EU countries and globally, dependent upon the outcome of future trade negotiations. As well as potential increases to cost, new customs procedures and paperwork might result in increased shipping times. However, having manufacturing locations in the UK and US gives us some flexibility to respond to this.

How we manage risks

The management of risk is embedded within the framework of the Group, which includes:

- the process of strategy setting;
- a clear understanding of market conditions and raw material prices;
- the quality of our people and culture;
- established policies, procedures and internal controls;
- a dedicated team reviewing adherence to internal procedures and operational controls, requiring action where non-conformances are identified;
- processes for identification, review and monitoring of risk;
- regular dissemination of financial and non-financial information and Key Performance Indicators (KPIs); and
- oversight of risk by the Board.

- If transitional arrangements are not in place then the process for ensuring continued compliance with EU REACH (Registration, Evaluation and Authorisation of Chemicals) regulations post-Brexit remains uncertain. The Group has appointed an 'Only Representative' on a contingency basis in order to ensure that it can maintain its support to its EU customer base affected by these regulations.
- Any changes to immigration rules within the EU have the potential to cause us some short-term disruption. The ability to attract talent from around the world is important for Treatt's future growth.

Risk management framework

Our risk management framework provides a consistent and structured process for identifying, assessing, responding to and monitoring risk. The senior management teams are responsible for compiling Group risk registers to identify risks facing the business, their effects and determining appropriate and proportionate risk mitigation strategies. Responsibility for monitoring and reviewing each risk is taken by a designated senior member of staff, ensuring that there is appropriate accountability. More than 80 risks are included in the register, rated on their probability and impact and then re-rated after mitigation. Those responsible for each risk will use a variety of tools to monitor their risk at a more granular level, including more detailed sub-registers and pertinent KPIs.

Where significant projects are undertaken, such as the recent site expansion at Treatt USA and the current site relocation in the UK, specific project risk registers are established to record all risks that could have a significant effect on the success of the project. This ensures that there is accountability for the mitigation strategies that are put in place and enables regular monitoring of risk identification and the effectiveness of mitigating actions throughout the project.

Any risks that remain classified as high or medium post mitigation form the Board risk register, providing details of those risks that may impact upon the performance of the business and its strategic direction. The Board formally reviews this register twice a year and upon any material change, with any amendments, control issues, accidents or commercial, financial, regulatory or reputational issues being reported to the Board in the meantime.

All employees have a role in the management of risk within the Group

Our risk management framework incorporates a top-down approach, setting the risk appetite and identifying our principal risks, and a bottom-up approach to identify our operational risks.

Principal Risks and Uncertainties continued

Principal risks

The Board has carried out a robust assessment of the principal risks and uncertainties facing the business, including those that would threaten the business model, future performance, solvency or liquidity. The following list of principal risks and uncertainties are those which individually or collectively might be expected to have the most significant impact on the long-term performance of the business and its strategic priorities. It is not intended to be an exhaustive list and additional risks not presently known to management, or risks currently deemed to be less material, may also have potential to cause an adverse impact on the business.

Treatt is particularly experienced in managing volatility in raw material prices and availability, and strategic decisions are regularly taken to mitigate price movements, which, whilst not eliminating risk, have a history of being effective. Abundant orange crops in both Mexico and Brazil, coupled with reformulation by customers away from d-limonene and some orange terpenes (the co-product of orange oil), has led to one of the sharpest price declines in orange oil ever seen. Accordingly, it has been an incredibly challenging year in terms of our citrus business, but with our diversified supply base, strong supplier relationships, early action when markets started to decline and strategic make-or-buy decisions, we have mitigated our exposure. However, we have increased our assessment of the current risk climate for the movement of raw material prices. We expect it to take many months, but this market will rebound, and we will manage the risk and opportunities of a rising market when it does so.

The risk climate in respect of the commoditisation of existing Treatt products appears materially unchanged this year as Treatt continues to see some stiff competition for existing business, as well as the need to be highly competitive on price in order to win new business, as our customers seek to reduce the cost of their products. Additionally, some products that Treatt traditionally saw as value-added are now seen as standard in the industry, with customers able to put out to tender or manufacture themselves. Our response is to capitalise on areas of the market where we are particularly strong and to continue to drive process, quality and efficiency improvements. The US expansion and UK headquarters relocation will be instrumental in this and in enhancing our ability to expand our value-added offering to customers with exciting new products, such as the recent addition of coffee to the range. The continued growth of other non-commoditised product categories will naturally mitigate this risk as commoditised products become a smaller percentage of our overall product portfolio.

As our business encompasses so many products derived from natural sources, adverse weather continuously has an effect on the availability and pricing of our raw materials, particularly with the increase in significant weather events across the globe. Some recent examples include unusually heavy snowfall in various growing regions of China in late 2017, which affected a number of products including star anise and ginger; hurricane Irma, which hit Florida in mid-September 2017, resulting in the largest and most sustained price increase ever seen for grapefruit oils; and unusual weather patterns in Florida during the first half of 2019 causing a delay in the regular processing of spring crops such as cucumbers, watermelons, peppers and cantaloupe. The key to working with natural crops, where movements in the market can be unexpected, is ensuring the availability of alternative supply sources; establishing and maintaining relationships with different suppliers is a core responsibility of the procurement function.

We have continued to see challenges this year in the supply and pricing of natural and nature identical chemicals, as well as non-citrus essential oils. Very strong efforts by the Chinese government to control pollution and change safety protocols continues to lead to thousands of manufacturing plants being closed in China, many with little or no notice. Whilst some of these plants are starting to reopen, many smaller ones will not survive. These closures have put immense pressure on the supply chain worldwide for these raw materials. That, coupled with two very damaging fires in 2018 at major chemical manufacturing facilities in Germany and India, caused price increases ranging from 10% to 400% for hundreds of chemicals, their derivatives and essential oils. Whilst we do expect to see many of these markets slowly move down in price as plants come back online, the lack of worldwide supply is likely to keep many prices higher than historical averages. We continue to manage the risk to this category of products, although the overall risk to the business of the movement in raw material prices has not increased.

One of the principal risks identified is from structural damage to our facilities from adverse weather events, particularly from hurricanes and storms in Florida, where our subsidiary Treatt USA is based. The facility is in Lakeland, which is inland, meaning that the main threat is likely to be from wind rather than flood damage. During the site expansion project we upgraded the existing buildings to improve their ability to withstand storm damage, including a complete replacement of the roof to the older of the two existing buildings. We have detailed hurricane plans for mitigating damage, which were put into action in 2017 when we saw the worst hurricane in Florida since 2005. There was no significant damage to the facility and only 36 hours of production was impacted. Nevertheless, the weather in Florida remains unpredictable and hurricanes are a continual risk that we must recognise and be ready to respond to.

The risk caused by pressure on infrastructure to continue to deliver strategically important business has reduced with the completion of the expansion project at Treatt USA, delivering greater capacity through the addition of new plant and machinery as well as increased warehousing and cold storage. However, the risk remains unchanged pending the completion of the UK headquarters relocation in 2020, which will add further capacity in the UK. In addition, the shifting of work patterns across both sites to extend the working week provides further opportunities to increase capacity and ensure greater efficiency within manufacturing areas.

Risk climate key:

→ No Change

↑ Increase

↓ Decrease

Strategic impact key:

1. Investing in our core categories
2. Diversifying into new categories
3. Investing for future growth
4. Investing in our culture
5. Engaging with our communities
6. Reducing our environmental impact

See our Strategy on page 16

Risk	Effect	Strategic Impact	Mitigation	Risk Climate
People				
1 **Poaching of key staff**	As our highly skilled and experienced staff become increasingly customer-facing, the risk of them being headhunted increases.	1, 3, 4, 5	• Ensure we secure an emotional attachment to the business, that remuneration packages are appropriate to the position, that staff are empowered and have opportunities within the business through training, enabling upskilling and providing career development opportunities.	→
Financial				
2 **Overspend on UK site relocation**	Increased costs, reduction in working capital headroom and a need to cut costs in other areas.	3	• Project specification agreed to achievable budget before commencement with suitable contingency included; • Third party project managers appointed to run the project; • Appointment of a third party project supervisor for the construction phase; • Appointment of a consultant to supervise the plant and machinery element of the project; • Robust contracts in place with contractors; • Regular budget meetings with Directors to ensure project remains on budget; • Close monitoring of the build through regular site meetings with the project manager and contractor, ensuring that the project remains on time and on budget; and • Internal control processes in place to fully evaluate any additions to the schedule of works.	→
3 **Movements in commodity raw material price**	Impact on contribution, possible stock shortages.	1, 2	• Regular stock meetings and inventory control with experienced members of staff; • Monitoring and communication of market conditions and long-term commodity contracts; • Maintaining close relationships with suppliers; • Continuing to identify new suppliers for key raw materials or those where shortages exist; • Assisting our customers with managing price volatility or raw material shortages as part of the Treatt service; and • Internal citrus team to provide greater management across the Group of Treatt's largest raw material.	↑
Operational				
4 **Pressure on infrastructure for strategic business**	Loss of revenue, damage to reputation, loss of key strategic customer.	1, 2, 3	• Ensure correct infrastructure through new headquarters in UK and expansion in the US; • Keep close communication between sales and operations to determine likelihood of large order and capacity restraints to manage customer expectations; • Manage sub-contractor relationships; and • Project manager working on Group inventory to ensure that we have the right inventory to be able to meet customer demands, whilst not carrying unnecessary levels.	→
5 **Structural damage to production facilities, particularly at Treatt USA, which suffers storms**	Loss of use of buildings, danger to staff, loss of equipment and product. Major incident due to type of products stored.	1, 2, 3, 6	• Regularly inspect and maintain building components; • Implement hurricane action plan when necessary; • Sufficient spread of inventory between production facilities in UK and US; • Comprehensive maintenance programmes across the UK and US sites; and • Improved capacity to withstand storm damage following expansion of the US facility.	→

Principal Risks and Uncertainties continued

Risk	Effect	Strategic Impact	Mitigation	Risk Climate
Operational continued				
6 **Inadequate documentation of processes and/or adherence to required processes**	Failure of BRC, HACCP or regulatory audits and damage to reputation as problem-free supplier. Investment in rectification of any non-compliances noted.	1 2	• Strong commitment Group-wide to disciplined compliance with internal quality programs; • Commitment to permit third-party auditing by customers and for certification and regulatory purposes; and • Internal auditing of systems and processes against Standard Operating Procedures and British Retail Consortium (BRC) requirements.	→
7 **IT issues including network, hardware, data and security**	Loss of IT systems and/or data, impacting on the ability of the business to function effectively. Reputational damage and litigation in respect of data protection.	1 2 3	• Well-constructed IT infrastructure with failover capabilities, supported by a comprehensive asset management database and best practice maintenance processes; • Multi-layered security protection system in place; • Security team continuously searches for and fixes vulnerabilities, including those reported by third-party security consultants; • Continued investment in infrastructure and particularly software security; • Continued focus on raising of staff awareness of cyber security through test scenarios; • Insurance cover taken out to protect the business against the highest cyber risks and consequent business interruption; and • Ad hoc hacking attempts by third-party security consultants.	→
8 **Product failure**	Potential product recall causing financial and reputational loss.	1 2 3	• Strong supplier qualification process, intake testing/analysis; • Regular review of risk matrix for every raw material handled; • Use of barcode scanners on all orders to avoid mispicks; • Range of testing to detect contamination; • Obtain up-to-date information for all suppliers via Supplementary Application Questionnaire (SAQ) documentation; • Supplier risk assessment to determine in-house test schedule; • Continuation of visits to suppliers; • Thorough investigation of errors leading to appropriate action such as retraining or amendment of procedures; • Review and renewal of recall insurance; and • Annual desk top testing of product recall procedure.	→
9 **Commoditisation of established Treatt products**	Effect on revenues and margin attrition.	1 2	• Innovation and development of new products; • Broaden into other associated sectors; • Continued focus on citrus as area of strength; • Identification and implementation of process improvements and new equipment to increase efficiency; and • Increasing value-added proposition.	→

Risk	Effect	Strategic Impact	Mitigation	Risk Climate
Operational continued				
10 **Shortening value chain and new entrants in proprietary technology-based aqueous distillates**	Customers demonstrating increased competence to fold, fractionate and break bulk. Increased competition.	1 2	• Continued value-added in-house innovation; • Strengthen product knowledge/sourcing; • Further rationalisation of product portfolio to remove low margin products and improve efficiency; and • Working with customers on make-or-buy decisions where Treatt has the expertise available, enabling customers to buy rather than process in-house.	No Change
11 **Single-sourced for synthetic speciality chemicals, many Treattarome® raw materials and materials for applications work**	Potential loss of primary supply source. The nature of the materials concerned would indicate individual company IP is involved.	1 2	• Closer collaboration with existing suppliers; • Identifying alternative suppliers where possible; • Investigate alternate sources of supply of, if not identical, similar materials; • Creation of alternate blends using substitutes; and • Long-term supply agreements put in place.	No Change
12 **Sourcing of natural products**	Loss of supply, increase in market price or impact on quality resulting from fluctuations in yields caused by weather, disease, etc. Squeeze on margins.	1 2	• Enhancing relationships with competitors/brokers and other supply channels, combined with forward purchasing contracts for medium to longer-term supply; • Visits to existing and new suppliers for key product groups; • Attendance at industry conferences and seminars providing opportunities to meet with potential new suppliers; and • Strategic buying of core products.	No Change
Legal and regulatory				
13 **Failure to comply with relevant UK and US environmental, H&S and other applicable legislation**	HSE/EA investigation. Probable enforcement action involving fines, enforcement notices. Risk of site closure.	1 2 5 6	• Detailed understanding of legislative requirements with internal involvement, consultative support and capital investment; • Pro-active role in ensuring the Group's systems and procedures are adapted to ensure compliance; • Working closely with the Environment Agency and relevant authorities in respect of COMAH[1]; and • Continuation of relevant training and assessment of employee skills across the Group.	No Change

1 Control of Major Accident Hazards.

Risk climate key:

No Change | Increase | Decrease

Strategic impact key:

1. Investing in our core categories
2. Diversifying into new categories
3. Investing for future growth
4. Investing in our culture
5. Engaging with our communities
6. Reducing our environmental impact

See our Strategy **on page 16**

The Group regularly reviews its commercial insurance programme and maintains an appropriate and adequate portfolio of insurance policies in line with the nature, size and complexity of the business, which provides further mitigation in certain areas of risk.

During FY 2018, a full-scale review of the Group's business continuity plans took place with the assistance of an external consultant, the cost of which was covered by the Group's insurers. A full business impact analysis was conducted improving our understanding of the business' resilience and how to minimise the impact and disruption of an incident or crisis to both operations and reputation. A more robust business continuity plan has been designed to incorporate emergency response, crisis management and business recovery and strategic IT disaster recovery aligned with best principles set out in ISO22301, the international standard for Business Continuity.

People & Culture

We give exceptional people the freedom to do great things

The talent, commitment and drive of the people at Treatt are what shape our winning culture. It is this culture that differentiates us in a competitive marketplace and is why our customers choose to work with us time and time again.

Jo Mapston
Global Head of HR

We attract exceptional people who are genuinely passionate about what they do. This has shaped a culture where our employees are excited about their career and work together in an open, fun and inviting environment where they can uncover their true potential and thrive. Investing in our culture is integral to our business strategy as it is the cornerstone of what makes us successful.

Strategic recruitment

We offer the opportunity to work in a future-focused Company that celebrates excellence and diversity while looking after its people. Successful applicants aren't just highly skilled professionals, they must also be the right cultural fit for the team they'll be joining. Our Company values are used in every appointment to ensure we're bringing the right mix of skills and personalities into the business.

Championing values

Our values are the fuel that drive the culture and success of our growing business. They are the cornerstones of our organisation as they were created, owned and championed by our team of nearly 400 employees over three continents.

Integrity

We are committed to excellence at every turn while working to the highest possible standards across the business.

Teamwork

Working in partnership is how we best serve our customers, exceeding their expectations and meeting their needs – no matter how ambitious.

Challenge

We strive for progress across the business and always work to find a better way to improve our service.

Pride and passion

Our people love what they do and are driven by the desire to delight everyone they work with.

96%

of staff received training in the last year

4,521

hours of training for employees

Starting right

Our global induction programme ensures that every new starter is warmly welcomed into the business and set up to succeed. Each programme includes a tailored schedule of meetings, seminars and training courses, all designed around the new starter and their role. Every detail has been thought of as each person receives a guided tour, a welcome bag with lots of Treatt goodies and a lunch off-site with their team on their first day so that they feel part of the community from the outset. Knowledge is shared through our Treatt University education system, which is supported by an ongoing syllabus to facilitate continued development.

Developing talent

This year, as part of our ongoing commitment to attracting and retaining the best in the industry, we have implemented a new Performance Management Process in the UK. We now have a strategic framework in place that allows us to recognise, develop and reward talent. Every member of staff has SMART objectives, all aligned to our strategy, that will further drive business success.

Celebrating achievement

We are big believers in recognition and reward for a job well done. As we expect the best from our people, it is only right that everyone understands the important part they play in our Company's success.

Our rewards go beyond the every-day as we are continuously looking for new, innovative ways to make our people feel valued. Whether it's free ice-creams in a heatwave or free shares at Christmas, we work hard to say thank you all year long.

Future focus

We recognise the need to invest in tomorrow and as such, we provide internships, apprenticeships, graduate trainee and work experience placements in almost every area of the Company. By working with local schools and colleges, we're doing our part to develop the next generation.

70%

of new vacancies were filled by skilled internal candidates

15

new roles created

What they say

"I knew very soon after first meeting a couple of people from Treatt that this was a team I wanted to be on. Everyone is working towards the same goal, and we're having the best time while we do it."

Emma Bowles, Global Marketing Manager, UK

"I cherish coming into work every morning knowing that I'm surrounded by people who will not stop until the job is done and our customer is satisfied."

Brandy Geiger, Director of Regulatory and Innovation, USA

"Treatt is like a big family. There is competition and cooperation, opportunities and challenges. We have the freedom to realise our business strategy in China."

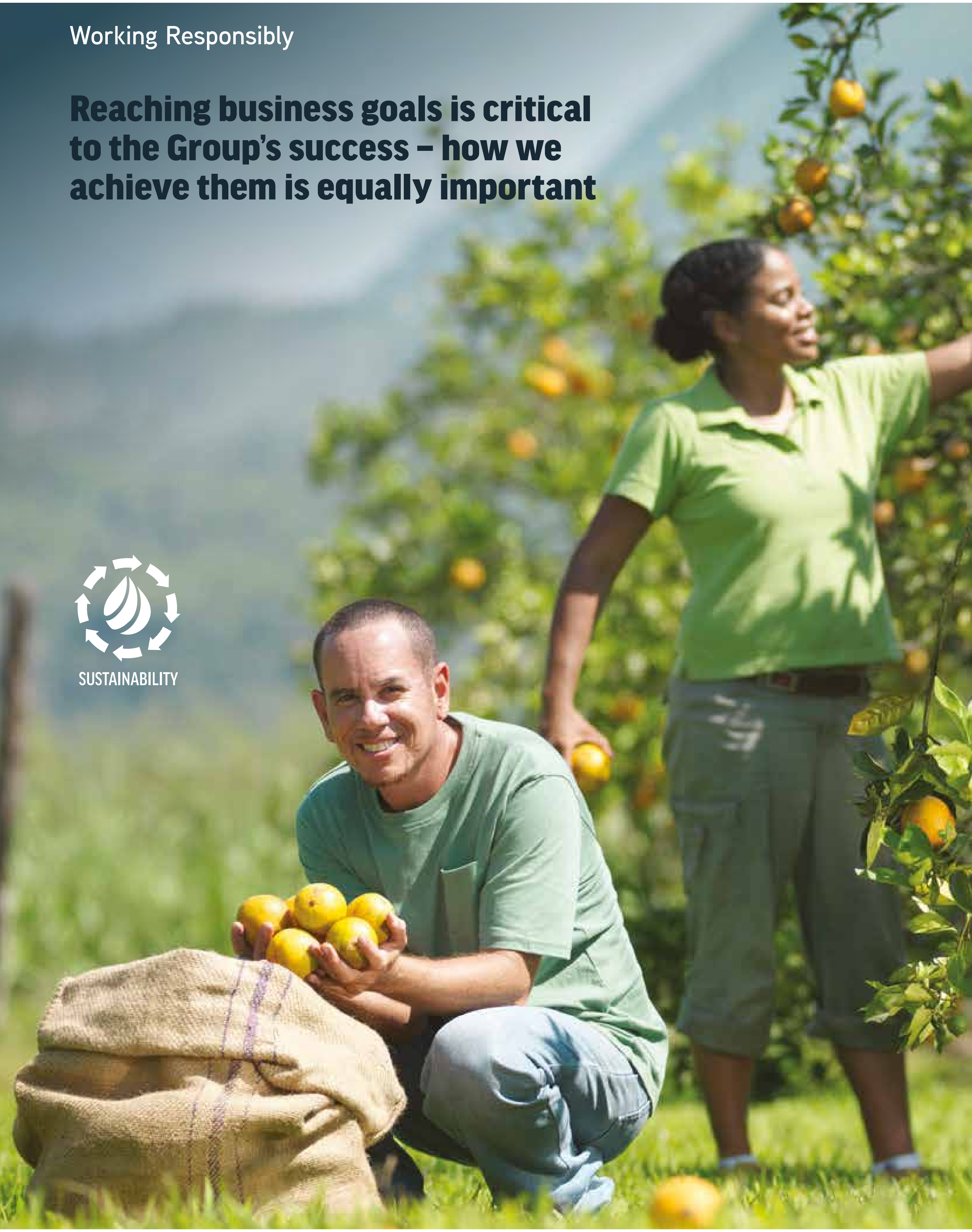
Simona Loh, Sales, China

"Today, Treatt's active encouragement of staff interests and ambitions produces remarkable results and innovative ways to help our customers succeed."

Andrew Campbell, Business Development Manager, UK

Working Responsibly

Reaching business goals is critical to the Group's success – how we achieve them is equally important



SUSTAINABILITY

GRI STANDARDS

The Group is committed to providing greater transparency of critical sustainability issues, specifically environmental, social and governance (ESG) factors. This Annual Report has been prepared with reference to the Global Reporting Initiative (GRI) Sustainability Reporting Standards 2016. A GRI Standards index is available on our website.

Sustainability

S172 of the Companies Act 2006 places an onus on the Board to promote the success of the Group for the benefit of its members as a whole, whilst having regard to various other stakeholder interests. We take our social responsibility seriously and have a reputation for behaving ethically and in an environmentally and socially responsible way. Operating in a responsible manner is an important aspect of our ability to deliver our strategic objectives and in creating long-term value. The Board, as a whole, takes responsibility for our sustainable business performance. Our activities are focused on the areas where we feel we can make a real difference – the environment, business integrity and ethics, our employees, health and safety and the local communities in which we work.

Environment

Climate change and resource scarcity are matters of deep concern not only to humanity generally but to Treatt in particular. Our business very much relies on the sustainability of nature's bounty. Robust, high quality and affordable crops of our natural ingredients are essential, whether oranges or tea, watermelon or honey, limes or roses. Whatever the raw material we work with, we are passionate about its sustainability. From carbon emissions to the use of water, from reduced sugar to optimal natural extraction, the Group strives to be at the forefront of first-rate stewardship.

The Group is committed to good environmental practices. It places importance on the impact of its operations on the environment and on ensuring that it operates and adopts responsible practices. Group performance and risk reviews are undertaken and monitored on a regular basis and reported to the Board.

Environmental performance and strategy

The Group continues to manage energy, fuel and waste disposal with the aim of lessening the Group's environmental impact whilst reducing cost and improving efficiencies. In accordance with The Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013, the Group is required to report its greenhouse gas emissions. The release of greenhouse gases, notably carbon dioxide generated by burning fossil fuels, is understood to have an impact on global temperatures, weather patterns and weather severity, which can directly and indirectly affect the Group's business.

As a supplier of natural ingredients, we are constantly reminded of the many factors that can influence price increases and present supply challenges. Consolidation of supply from source, fresh fruit market prices, changes in political/economical climates, major fluctuation in supply versus demand, as well as adverse weather conditions and disease are the main drivers of volatility.

Droughts experienced over late summer in Mexico will affect the majority of citrus crops this season including orange, lime and grapefruit with a potential 50% crop reduction from the previous season. After an incredibly difficult year, Florida's 2019/2020 season is moving in a positive direction, estimated to be around 73m boxes, which is similar to last season. We are thankful that the five to seven hurricanes predicted this year did not have any impact on Florida or its citrus growing areas.

Working Responsibly continued

We understand that everything we do has an impact on people and the environment, which is why we operate in an ethical and socially responsible way

Brazil's current citrus season, although up from last, is likely to be reduced by at least 10% due to a recent severe ten-day period with no rain during critical maturation. The effects of this drought will not only be felt this season but will also impact next, which is expected to be some 30% lower than 2018/2019 yields. Limes in Mexico have also been reduced by 25-30% due to severe lack of rain. Lemon production in Argentina suffered months of heavy rainfall which had an impact on the size of fruit. Fruit either too large or too small does not bode well for the fresh fruit market, so there has been a very large influx of lemons going for processing which, in turn, caused an oversupply of lemon oil.

As markets continue to fluctuate, it is never more important to work in partnership with our suppliers. The strength of having global strategic supply alliances comes into play when we are challenged with such radical volatility of natural crops and having access to these sources is key to being able to mitigate risk and drive business growth.

We are constantly looking at how we can reduce waste and our environmental impact. We have introduced a paperless policy in the Accounts department and have reduced the number of freestanding waste bins in our offices to encourage thoughtful recycling and disposal. We are continuing to reduce the number of printed copies of the report and accounts required to be posted to shareholders, ensuring our financial reporting process has a less negative environmental impact.

At Treatt USA, increased production has required us to work closely with the Municipal Water and Wastewater Departments as well as Lakeland Economic Development Council to effectively understand and manage our wastewater with the addition of a flowmeter. The repair of the existing injection well, as part of the larger effort to increase well water capacity, has eliminated ground water leakage. In Kenya we have appointed two Environment and Waste Management Champions, providing quarterly training for all staff on a 'Reuse & Reduce' initiative.

The completed site expansion at Treatt USA has provided us with the opportunity to successfully modernise facilities and build an appropriate and cost-effective infrastructure that will help to reduce the environmental impact of the buildings. In 2020 the UK site relocation will take place and working closely with local planning, the building will be constructed to a BREEAM rating of 'very good', a performance equivalent to the top 25% of UK non-domestic buildings. We have worked with assessors to measure expected ratings covering everything from energy, transport, water, materials, waste and pollution. We have also worked with an ecologist to ensure habitat improvements including trees, hedgerows, grassland and shrubs that will provide foraging and nesting opportunities for a number of bird and invertebrate species, ensuring that any detrimental impact of our building is minimised.

Waste

A consistent theme in the Group's environmental ethos is a commitment to recycle as much waste as possible and constant improvements are being made in the reduction of waste streams. At R C Treatt 24 tonnes of material was shipped to the anaerobic digester, 63% of hazardous waste was recycled and/or recovered (2018: 55%) and 100% of used drums have been recycled. 100% of waste continues to be diverted from landfill, with 42 tonnes of general waste being sent to an energy recovery facility for electricity generation as well as metal recycling, with material residues being used in construction products. The cardboard skip for production packaging, introduced in August 2018 as a dedicated waste stream, has seen 4 tonnes being recycled or recovered. In addition, waste oil with a calorific value is sent for use as biomass, thereby further reducing the Company's carbon footprint and eliminating disposal costs. Treatt USA recycled 80 tonnes of cardboard as well as 7,817 cubic meters of plastic and steel drums. All plastic and wooden pallets are sent for recycling in full loads. In Kenya, distillation biomass waste is converted to biochar, mixed with farmyard manure and composted for use on the farm. The biochar reduces the carbon footprint by sequestering carbon into the soil. Some of the waste is also used as mulch on the tea tree farm.

Water

The Group has decided to record water consumption data whilst recording its greenhouse gas emissions in order to gain a greater understanding of its environmental impact. The largest consumer of water in the Group is Treatt USA, which uses large quantities in its manufacturing processes and the cleaning of its specialist equipment. Due to its high consumption, Treatt USA uses a closed loop cooling water circuit with direct cooling from deep well water on all still condensers. This well water is then recycled back into the aquifer via a second deep well. The system provides significant local environmental benefits as well as reduced energy usage. Treatt USA is working with the local water authorities to monitor consumption to ensure compliance with relevant regulations.

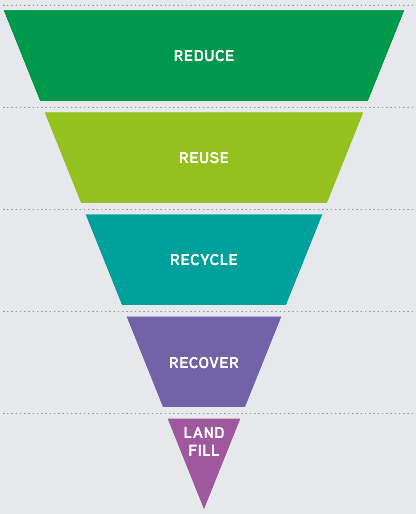
The Group's own crop growing area in Kenya uses rainwater harvested in its own dam, a borehole and water pumped from a nearby river, for which it pays a small annual fee. It does not purchase any water from a water treatment company. Distillation wastewater is re-used as irrigation water on the farm vegetable garden.

Recycling pyramid

As a business, we have a legal and moral responsibility to ensure we produce, store, transport and dispose of business waste with minimal harm to the environment.

We are responsible for our waste from the point it is produced, until we have transferred it to an authorised body. However, our duty of care for the waste we produce does not end there and extends along the entire chain of waste management. We need to ensure that the Company that accepts our waste holds the relevant registrations and permits for transportation and final recovery or disposal.

The hierarchy of waste management can be used to focus our efforts to reduce waste first and ensure as little as possible goes to landfill.



- Reduced plastic cup usage by 33%
- General waste reduced by 22%
- Carbon footprint – 16% reduction per kg sold

- Reusable water bottles given to all staff
- Reuse of pallets through logistics chain
- 100% of used drums reused or recycled

- 55% hazardous waste recycled

- 100% of general waste goes to energy recovery facility
- 16 tonnes of process waste material to anaerobic digester for energy recovery

- Zero general waste to landfill

In recording water consumption for the Group, the sales office in China has been excluded on the basis that water usage is included in the rent. Data has been accurately recorded from invoice information and meter readings.

Water efficiency

	2019	2018
Total water used (m^3)	55,596	43,475
Water efficiency (litres per kg of product shipped)	7.37	5.31

The increase in water consumption primarily results from the building work at Treatt USA, an overall increase in production in the US and a change in the mix of products towards those which use more water during processing.

Greenhouse gas emissions

The Group has adopted a greenhouse gas reporting policy and a management system based on the ISO 14064-1:2006 methodology, which has been used to calculate the Group's Scope 1 and 2 emissions in 2019 for activities within the operational control of the Group. It is not currently intended to report Scope 3 emissions. The Group is working towards compliance with Phase 2 of the Energy Saving Opportunity Scheme, which the UK Government established to implement Article 8 (4 to 6) of the EU Energy Efficiency Directive (2012/27/EU) and is administered by the Environment Agency.

In measuring the Group's greenhouse gas emissions, the sales office in China has been excluded on the basis that emissions from utility consumption, which is included in the rent, is estimated to be less than a materiality threshold of 5% of overall Group emissions. Data has been accurately recorded from invoices, meter and mileage readings. GHG emissions detailed in the table have been calculated using the appropriate 2019 DEFRA conversion factors, except for overseas electricity which used the 2015 IEA conversion factor for reporting consistency.

	2019	2018
Scope 1 – Direct CO_2 emissions (tonnes CO_2e)	1,864	1,589
Scope 2 – Indirect CO_2 emissions (tonnes CO_2e)	1,665	1,336
Total CO_2 emissions (tonnes CO_2e)	3,529	2,925
gCO_2 emissions per kg of product shipped	476	357

Working Responsibly continued

Sustainable Shipping

We believe in our duty to make our logistical operations as sustainable as possible. We actively work with agents who are committed to reduce CO_2 emissions through their own sustainability strategy, which allows us to make a conscious choice when securing freight transportation.

The Group's UK site continues to operate under the threshold limits of the Solvent Emissions Directive 1999/13/EC for the industry at less than 0.5 tonnes, with the threshold limit set at 10 tonnes. Group Chiller Operating CO_2 emissions are 25 tonnes (2018: 27.5 tonnes). Total GHG CO_2 Emissions for Scope 1 and Scope 2 have increased to 3,530 tonnes (2018: 2,925 tonnes). This is primarily a result of increased energy consumption arising from the building work at Treatt USA; additional use of 24-hour working patterns in the UK and US; significant emissions from the decommissioning and installation of more efficient chiller units at R C Treatt due to breakdowns; installation of new chiller units at Treatt USA as part of the expansion project; and additional headcount in both the UK and US.

Business integrity and ethics

As a leading ingredients manufacturer, we take huge pride in the stability and transparency of our supply chains. Our proven ability to provide our customers with consistently high-quality products is testament to the strategic investment in our relationships with raw material farmers, producers and processors. A global team expertly manage the procurement of over 2,500 products across our seven product categories, each with its own unique supply chain. Our expertise and skill here is a core part of our Group's value proposition and is integral to how we deliver excellence to our customers time and time again. As markets continue to fluctuate, it has never been more important to keep all lines of communication open. We work in partnership with our suppliers and work hard to bring our customers the latest from the world's key growing regions, to mitigate risk and drive business growth.

INTEGRITY | PRIDE & PASSION | TEAMWORK | CHALLENGE

The Group is a band B member of Sedex, a global membership organisation dedicated to driving improvements in ethical and responsible business practices in global supply chains by using a collaborative approach to help buyers and suppliers share and exchange data, helping to better manage social and environmental risks within our supply chain, and positively impact responsible sourcing. We are also proud to be accredited to use the Rainforest Alliance Green Frog certification seal, which indicates the Group meets standards that require environmental, social, and economic sustainability. To support our beliefs, we are committed to meeting the Ethical Trading Initiative best practice requirements.

Guiding principles

Treatt has integrity as a core value. This value, along with teamwork, challenge and pride & passion make up our four core values which are the four pillars on which we stand. As a Group we understand and respect the need to promote and maintain trust in our business; the Group has a reputation for honesty and integrity in its relationships with its stakeholders.

Supplier code of conduct

Ethical concerns and human rights issues have always played an important role in Treatt's Company philosophy and the Group's Supplier Code of Conduct details the standards of behaviour which Treatt regards as acceptable. Provision of a safe, clean working environment, free from discrimination, coercion and the use of child or forced labour is a basic right of all employees, which Treatt expects of its business partners as a minimum standard. The Supplier Code of Conduct also sets out the standards expected with regard to anti-bribery and corruption, modern slavery, health and safety and good environmental practices. The Code of Conduct, which is published on our website, forms part of the raw material supplier evaluation process and the approval of any new supplier will be subject to their acknowledgement that they materially comply with its provisions. Suppliers are revalidated every three years and must reconfirm their compliance with the Code of Conduct as part of that process.

Human rights

Treatt complies with the full requirements of the Ethical Trading Initiative Base Code, which is founded on the conventions of the International Labour Organisation and is an internationally recognised code of labour practice. It is a requirement of doing business with Treatt that our suppliers comply with the Base Code.

Anti-bribery and corruption

Treatt has a zero-tolerance policy as regards bribery and corruption. This extends to all businesses and transactions and includes a prohibition on offering or receiving inappropriate gifts or levels of hospitality. The Board reviews anti-corruption policies, which are communicated and accessible to all Group staff, on a biennial basis to ensure that they remain appropriate. Any changes to policies are communicated across the Group.

With the Sustainable Shipping Incentive, bringing leading companies together with the aim of creating a sustainable industry by 2040, Treatt can be confident that sending our products around the world will contribute to this effort.

13%

of our shipments use these sustainable shipping companies

All UK and US staff receive anti-bribery and anti-facilitation of tax evasion training on joining the Group and those staff with access to customers or suppliers are required to refresh their training on anti-bribery every two years. Staff in other jurisdictions receive anti-bribery training on a two-year basis.

Modern slavery

Treatt published its first Modern Slavery Act Statement in 2016 and has worked since to raise awareness of this important issue with employees, through the Anti-Slavery and Human Trafficking Policy and with suppliers, through the Supplier Code of Conduct. The Group has a zero tolerance of slavery and human trafficking in all its different forms in any part of its business and in its supply chain. All employees are required biennially to undertake training using online resources. We ensure that everyone who works for Treatt benefits from a working environment in which their fundamental rights and freedoms are respected and we are committed to taking appropriate steps to ensure that our suppliers' treatment of their employees is consistent with this.

Employees

Customers choose to partner with us time and time again because our people love what they do and are driven by the desire to delight everyone we work with. The Group is committed to a policy of recruitment and promotion on the basis of aptitude and ability without discrimination. Applications for employment received from people with disabilities are given full and fair consideration for suitable vacancies, having regard to their particular aptitudes and abilities.

Training

The focus on training continued in 2019 in order to continuously improve the skills of our employees through both general and targeted training programmes provided by internal and external providers. Lunch-and-learn style training provides the opportunity for knowledge sharing across the Group on a variety of subjects relevant to our business, whilst also providing the opportunity for staff to spend time together. By improving communication between colleagues these initiatives are vital to the sustainable growth of the business.

The Group supports the ongoing development of staff, which includes apprenticeship programmes at NVQ level, right through to further education including masters level. Professional qualifications and memberships are highly valued by Treatt, and we work with a number of professional bodies for accredited qualifications across multiple disciplines. These qualifications are offered across multiple departments including IT, Procurement, HR, Technical, Engineering, Marketing and Health & Safety.

This year we have four apprentices across the business at the UK site who are provided with a structured training and qualification programme. There are also four interns who, whilst developing their knowledge and gaining practical experience, are providing a valuable resource to the technical department. These initiatives also strengthen the Group's links with universities and develop relationships with the next generation of talented candidates. Educational support is provided in the UK and schoolchildren are encouraged to spend time in the business through educational visits and work experience placements. Expertise is also shared with students at careers and science fairs. Colleagues from various departments held mock interviews with 13 and 14 year-old students at a local school to help the students develop their communication skills and confidence.

	Female	Male	Total
Average hours training	13	14	**13.9**
Total hours training[1]	1,681	2,840	**4,521**

1 majority of annual hours training is carried out by external providers.

Employee involvement

Executive Directors make half-yearly results presentations to all colleagues and encourage questions and dialogue on every aspect of the Group's performance and activities. At R C Treatt the Information Exchange Committee (IEC) enables an exchange of ideas and information between the Company and its employees. The IEC is chaired by the CEO and its members are all colleagues below management level who represent every department and area of the business in the UK. The Executive Directors regularly have lunch with colleagues to hear their views on the business. At Treatt USA the Vice Presidents regularly hold 'town hall meetings' to communicate a variety of subjects and provide colleagues with the opportunity to ask questions and challenge management. Board members make a point of visiting all Group affiliates and regularly carry out site visits and tours, engaging in meaningful discussions with colleagues at all levels within the organisation.

All-employee bonus schemes, based on the performance of the business, remain in place and employees are encouraged to become involved in the success of the Group through share-save schemes and the Share Incentive Plan (see note 28 to the financial statements).

Working Responsibly continued

Diversity

We believe in championing diversity in all forms throughout every area of the business.

Total employees
- Female 88
- Male 124

Of which are Line Managers
- Female 18
- Male 21

Total training hours
- Female 1,595
- Male 2,216

Average training hours per employee 18
- Female 18
- Male 18

EMPLOYEE INVESTMENT

This year we have implemented a new performance management process in the UK to improve how we develop talent within the business.

Through round table discussions, the process has been well received and supported by management. It has been pleasing to see that cross-functional objective setting has been discussed for the new financial year, as well as individual performance and development objective setting.

ORGANISATION'S BENEFITS[1]

Improved organisational performance; employee retention and loyalty; improved productivity; overcoming the barriers to communication; clear accountabilities; and cost advantages.

MANAGER'S BENEFITS[1]

Saves time and reduces conflicts; and ensures efficiency and consistency in performance.

EMPLOYEE'S BENEFITS[1]

Clarifies expectations of the employees; self-assessment opportunities clarify the job accountabilities and contribute to improved performance; and clearly defines career paths and promotes job satisfaction.

WORKING BENEFITS

- Responsibility-based flexibility
- Holiday purchase scheme
- Cycle to work scheme
- Computer and mobile phone purchase scheme
- Packed social calendar including our annual party and monthly events

HEALTH BENEFITS

- Life Assurance
- BUPA health cover for UK based employees
- Medical, dental and vision insurance for US based employees
- Disability insurance
- Employee assistance plan
- Gym membership and exercise classes

FINANCIAL BENEFITS

- Competitive salary
- Annual bonus based on the performance of the Company and Group – a scheme that pays up to 12% of annual salary
- Non-contributory UK pension scheme and 401K savings plan for US staff
- UK and US share save scheme – offering substantial discount in shares
- Share Incentive Plan, free shares/stock and partnership and matching shares available
- Childcare vouchers – salary sacrifice enabling huge savings on childcare

1 Relates to the Group's UK-based operations only.

Total employees
- Female 40
- Male 74

Of which are Line Managers
- Female 3
- Male 6

Total training hours
- Female 86
- Male 624

Average training hours per employee 6
- Female 2
- Male 8

The Share Incentive Plan is run for all UK employees, with a similar plan for US employees. Under these plans, all eligible UK and US employees have received free shares (or their US equivalent) since 2014 and will do so again in December 2019; UK staff will also be able to buy additional partnership shares, which Treatt will match on a 1:1.5 basis in accordance with the rules of the plan. The Directors believe that by encouraging greater employee shareholding the interests of employees is further aligned with shareholder interests.

As employees based in the US can find it problematic to sell shares in a UK-listed company the Group has set up a Vested Share Trust Account. This provides a platform from which US employee shareholders can sell their shares more easily which should encourage higher levels of employee ownership in the US.

Looking after our people

Promotion of our employees' health is extremely important across the Group. Our philosophy regarding our people is 'think well, live well, be well'. In the UK, we have participated in the voluntary National Campaign for Free Health Screening for over 45-year olds on two occasions as well as a free offer of annual influenza vaccinations for staff who do not qualify under the NHS criteria. These have been run by local health services on site at R C Treatt. We understand the importance of mental health as well as physical health. We have provided mental health awareness training to all our managers and staff and subsidise a programme of pilates at work. Over the summer we initiated the Couch to 5K scheme, encouraging colleagues to take time away from their desks to gradually build up their physical health and thus benefitting mental health too. We identify health risks from general risk assessments and COSHH assessments (Control of Substances Hazardous to Health).

We have a third-party Occupational Health Service who work with us to identify any additional health risks and carry out regular health screening and surveillance to monitor workers' health in relation to exposure. The service involves worker assessment of exposure and includes wellbeing and general physical and mental health support. We carry out a quarterly review of service delivery.

Local employment

Our larger operations in Bury St. Edmunds and Lakeland provide direct employment opportunities, with a significant number of our workforce in these locations living within the local postal districts, including 7 of our 11 Senior Managers and Executive Directors. In October last year we were extremely proud to have R C Treatt awarded Platinum accreditation for Best Employers in the Eastern Region. We also encourage local businesses to be part of our supply chain, and actively seek to work with local service providers in order to support the local economy and build local skills and expertise. We are especially looking forward to developing new local relationships upon our UK site relocation next year and have already identified local providers to facilitate our employees' needs.

We recognise that our employees have lives outside of work and aim to provide a flexible workplace that enables them to achieve a balance between their role with Treatt and their responsibilities outside of work. Our flexible working policy enables employees, as far as their roles permit, to work from home and provide general flexibility. Such policies assist in the recruitment and retention of a diverse workforce.

Health and safety

The Group's ongoing investment in health and safety continued during the financial year and forms an integral part of the Group's strategy, remaining at the forefront of all operations. We constantly audit our procedures and processes across the Group to make sure that they remain effective and that they are adhered to; they are updated or refreshed as required. Training plans for operational staff involve observational and theoretical competency. For more safety critical activities this is carried out by a group of trained internal competency assessors. Employees are assessed against specific competencies through observation, discussion, and in some cases, recorded tests.

We regularly review procedures and use audit, feedback and near miss and accident/incident data to update and ensure procedures remain current and effective. We have an internal concern reporting system for Health and Safety issues using cards, which can be anonymously completed. Additionally, we have a quality concern raising system that is run by a third party using a mobile phone/cloud-based system, which enables staff to anonymously raise issues of concern. We do encourage staff to report as part of our 'no blame culture'.

Position	Male	Female	Total
Group Directors	6	2	8
Senior Managers	5	4	9
Direct reports of Senior Managers	30	29	59
Other Employees	204	119	323
Total Employees[1]	**245**	**154**	**399**

1 Actual number of employees at the year-end date. This differs to the headcount in note 6 to the financial statements which is the average number of employees during the year measured on a full time equivalent basis.

Working Responsibly continued

Charity Bike Ride

Each year we look for opportunities to support local causes that matter to our people in new and engaging ways. This year Treatt staff cycled over 4,000 miles (the distance from our UK headquarters to our Lakeland facility) on static bikes, raising over £2,500 for NSPCC Suffolk.

The fundraising took place over a month as staff were encouraged to jump on a bike throughout their working day to raise money, but also take a break from work and get some exercise.

The money our people raised will be used to deliver vital services to schools in the region as well as offering further support to children in need. The fundraising cycle was part of the NSPCC's Suffolk 125th anniversary appeal which raised money for its Speak Out Stay Safe service.

>£2,500

Raised for NSPCC Suffolk

The UK manufacturing facility is designated as a top-tier site under the Control of Major Accident Hazards Regulations 1999 ('COMAH'), enforced by the Competent Authority, being the Health and Safety Executive and the Environment Agency. The main aim of the regulations is to prevent and mitigate the effects of major accidents involving substances which can cause damage/harm to people and/or the environment. Accordingly, Treatt is regulated under the stringent COMAH regulations and works closely with the Health and Safety Executive and the Environment Agency. As safety and our environment are of paramount importance, members of the Treatt team have established a COMAH forum to enable collaboration between COMAH sites where experience and ideas are shared.

All staff have training requirements identified related to their role. This includes general induction to health and safety and COMAH. Depending on their role further training is given for Control of Substances Hazardous to Health (COSHH), Risk Assessment, Food Safety, Manual Handling and Dangerous Substances and Explosive Areas (DSEAR). Team leaders and Managers are expected to attain further IOSH (Institution of Occupational Safety and Health) and NEBOSH (National Examination Board in Occupational Safety and Health) safety qualifications as part of their role. Additional training is given to our Safety, Health and Environment Champions, who are employee representatives with additional health and safety responsibilities, for which they receive payment, ensuring that safety remains a top priority of the business.

Relevant staff will have appropriate task safety training such as process safety, confined space or scaffolding. We follow the hierarchy of controls and review tasks by risk assessment or a Hazard Operability study to understand impact and how risk can be mitigated or eliminated. If a significant risk remains it will be reviewed via the Health and Safety, Chemical and Process or Quality steering meetings which will ensure the risk has been reduced as far as is reasonably practicable and agree a way forward, which may be alternate methodology, further investment or a decision to cease the activity.

Social and community

We understand that everything we do has an impact on people and the environment, which is why we operate in an ethical and socially responsible way. With a deep-rooted respect of the world's resources we are committed to ensuring a sustainable, fair and rewarding future for all our staff, suppliers and growers – wherever they live. The Group endeavours to have a positive impact on the communities in which it operates and over the last few years has significantly increased its presence in these communities. During the year the Group made charitable donations of £41,200 to local and national causes, and has been involved in many initiatives across its locations.

The Kenyan companies are committed to purchasing oils directly from source at a fair and sustainable price and work closely with growers in under-developed countries through Fair for Life Social and Fair Trade certification. Long-term and trusted support and co-operation has also been a driver for positive change which has led to their partner, the Kenyan Organic Oil Farmers Association (KOOFA), increasing from its initial 90 members to over 900 producers. Our Kenyan businesses have helped deliver more than 300 new 3,000 litre water tanks to members of KOOFA to enable them to store valuable water, with the remaining farmers to receive water tanks as part of this long-term project. Over 3,000 family members utilise the new water tanks, freeing up time usually spent fetching or buying water for other activities.

Additionally, through the donation of efficient gasifier stoves to Kenyan farmers, the Kenya companies continue to be certified carbon neutral; all carbon dioxide emissions from Kenyan activities having been neutralised. As a direct consequence, dozens of Kenyan farming families are now living in healthier homes free from smoke and carbon monoxide formerly produced from open fires. Community funds provide additional benefits to the farmers and their families, such as scholarships and sanitary products to a local primary school. Tanks and taps have also been gifted to KOOFA farmers and shopping vouchers issued.

The Treatt Community Spirit Initiative goes from strength to strength and provides opportunities for employees to support local causes. Activities carried out include litter picks and assistance in a charity's warehouse as well as supporting local fundraising events both during working hours and in colleagues' own time. R C Treatt was the main sponsor for the 'Big Bang Fair', sending six volunteers who engaged with over 1,000 students on the day from schools across Suffolk. In support of a charitable initiative, we were proud sponsors of both the Bury Free Press Community Awards, which celebrated the very best local community initiatives, and the 'Good Neighbour Award', for the person or group that has shown good neighbourliness to others within the local community.

'Payroll Giving', operates in the UK and enables colleagues to donate regularly to their chosen charities from their gross pay; money is also raised for a local charity via a monthly lottery administered via payroll. The Company donates additional funds to money raised by colleagues during fundraising activities through its matching scheme.

The charities Treatt continually supports include: kidsPACK children's charity, Florida Youth Fair, the Grow Into You Foundation for teens leaving the foster system and Toys for Tots-Boxes in the US together with East Anglia's Children's Hospice, My Wish Charity supporting West Suffolk Hospital, UpBeat Heart Support, St Nicholas Hospice, MIND and Bury in Bloom in the UK.

In support of a charitable initiative, UK colleagues were invited to enjoy a locally roasted coffee and homemade brownie with a percentage of the proceeds being donated to the Upbeat Heart Support Group. Similar initiatives take place in the US, and a party of volunteers regularly give their own time to collect rubbish on local roads as part of the Florida Department of Transportation's 'Adopt A Highway' scheme.

This Strategic Report was approved by the Board on 25 November 2019.

Signed on behalf of the Board.

Anita Guernari

Group Legal Counsel and Company Secretary

Corporate Governance

Board of Directors

As a Board, we are conscious that we are accountable to our shareholders and must have regard to other stakeholders such as employees, customers, suppliers and the environment.

56

Corporate Governance Statement

Our commitment to effective corporate governance across the Group is reflected in our principles, policies and practices.

58

Audit Committee Report

The Audit Committee has oversight of the relationship with the external auditor and is responsible for monitoring their independence, objectivity and compliance with professional and regulatory requirements.

66

Nomination Committee Report

During the year we refreshed the Board with the appointment of two high calibre Non-executive Directors.

64

Directors' Remuneration Report

There has been a considerable movement in the regulation of UK Directors' remuneration with the introduction of the 2018 Corporate Governance Code and the expansion of remuneration reporting requirements, included under the Shareholder Rights Directive.

70

Directors' Report

The Directors' Report contains all other disclosures and statutory information.

84

Board of Directors

Tim Jones
Non-executive Chairman

Led Treatt's Board as its Chairman since his appointment in 2012 and appointed Daemmon Reeve as the Group's CEO in the same year.

A Member of the Chartered Institute of Securities and Investments and an Associate of the Chartered Insurance Institute, Tim began his career in financial services and held posts in the Middle East, the US and Europe before entering the beverage/water bottling sector including the establishment of a joint venture in the Balkans.

For 17 years he was Chief Executive of Allia, a charitable organisation where he oversaw a range of new solutions to drive impact entrepreneurship and developed social finance initiatives for impact investment through Employment and Housing Bonds and London Stock Exchange – Listed Bonds. He is now a Senior Advisor to Allia's Trustees and Chairman of its stockbroking subsidiary City and Continental Ltd.

He is an Honorary Fellow at Cambridge Judge Business School and actively involved in the City of London where he is a Freeman, Court Assistant and Chairman of Communications at the International Bankers Company.

Key External Appointments:

Non-executive Director of Retail Charity Bonds plc

Daemmon Reeve
Chief Executive Officer

Appointed Chief Executive Officer in 2012.

Daemmon joined RC Treatt & Co Limited, the Group's UK operating subsidiary, in 1991 and gained extensive industry experience and knowledge from his time in technical, operational, sales and purchasing disciplines. He was appointed CEO of Treatt USA in 2010 and became Group CEO in 2012.

A key part of his role is to help provide the cultural environment for the success of Treatt and its fantastic team, making Treatt a fun place to work along the way. It is the output of the engaged teams which is driving the success of Treatt. Seeing our excellent team succeed is what excites Daemmon most about Treatt.

In August 2019, Daemmon's contribution to Treatt and the wider community was recognised by the award of an honorary doctorate by the University of Suffolk.

Key External Appointments:

No external appointments

Richard Hope
Chief Financial Officer

Appointed to the Board in 2003.

Richard qualified as a Chartered Accountant in 1992 at Price Waterhouse, which is now part of PwC, and was certified a Fellow of the Institute of Chartered Accountants in England and Wales in 2010. Richard has held several senior finance positions for almost 20 years in value-added manufacturing businesses, including Hampshire Cosmetics Limited.

He was awarded Finance Director of the Year at the 14th Grant Thornton Quoted Company Awards in February 2018 and was a Finalist for the Shares Magazine Finance Director of the Year award, part of the UK Stock Market Awards, in 2017. Richard gets a sense of pride walking into a supermarket with the knowledge that Treatt has ingredients in a large number of well-known consumer products.

Key External Appointments:

No external appointments

Jeff Iliffe
Non-executive Director

Appointed to the Board in 2013.

Jeff has widespread experience of the City, industry and internet-based businesses, including acquisitions, business integration and investor relations.

He was CFO of Abcam plc from 2007 until 2016, as the company delivered huge growth to become a world-leading life sciences business.

Previously, he was a corporate financier at Panmure Gordon & Co, during which time he advised Treatt, and has held senior financial positions in environmental, biotechnology and internet-based businesses.

Key External Appointments:

Non-executive Director of Cambridge Nutraceuticals Limited

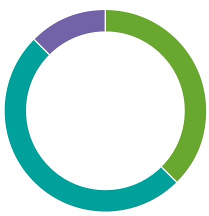
Trustee of Cambridge Arts Theatre

Board Gender Diversity

Female	25%
Male	75%

Board Independence

Independent	25%
Non-independent	75%



Length of Service

0–5 years	37.5%
6–10 years	50.0%
Over 10 years	12.5%

David Johnston
Non-executive Director[1]

Appointed Non-executive Director in 2011.

David started his career working as a biochemist for the UK government prior to transferring to Switzerland where he worked on an international programme to enhance the resistance of plants to pathogens.

He then joined one of the leading flavour and fragrance companies, Firmenich SA, in a variety of commercial and technical roles over 13 years. He finished his career at Firmenich SA as head of flavour innovation globally. He then started his own company, Natural Taste Consulting SARL, which focuses on the development and sales of taste modifying compounds.

Key External Appointments:

No external appointments

Richard Illek
Non-executive Director

Appointed to the Board as Non-executive Director in 2016.

Richard retired from PepsiCo in March 2016, following 28 years with the company. During that time he served in various senior positions around the world including Plant Manager, QA Manager and Technical Services Director, culminating in his most recent role as Senior Director of Manufacturing and Formulations.

Key External Appointments:

No external appointments

Yetunde Hofmann
Non-executive Director

Appointed to the Board as Non-executive Director in 2019.

Yetunde is Managing Director of Synchrony Development Consulting, an international leadership and change consultancy that partners with leaders and organisation to facilitate strategy, change, diversity and inclusion. She is a Non-executive Director and member of the Audit Committee at the Chartered Institute of Personnel and Development (CIPD) and is also a Trustee of Tomorrow's Company and the Education Development Trust – EDT where she is also Chair of the Remuneration Committee. She is a Visiting Fellow at the John Madejski Centre for Reputation at the University of Reading's Henley Business School.

Yetunde started out her career at the International Institute of Tropical Agriculture (IITA) in Nigeria and went on to build a successful career in a variety of HR leadership roles in FTSE 100 Global companies including Imperial Brands, Unilever, Allied Domecq and Northern Foods. She established The Enjoyable Life Series, a community organisation designed to help people at all levels in business, education and community identify practical ways in which they can live more joyfully thereby helping to support wellbeing, diversity and inclusion.

In 2018 she was named in the Cranfield University FTSE Board Report '100 Women to Watch' list.

Key External Appointments:

Non-executive Director of the Chartered Institute of Personnel and Development

Trustee of Tomorrow's Company

Trustee of Education Development Trust

Lynne Weedall
Non-executive Director

Appointed to the Board as Non-executive Director in 2019.

Lynne is an experienced FTSE 100 Group HR and strategy Director who has worked in a number of FTSE 100 companies and family businesses. She has key expertise in business strategy, organisation design, strategic change management and employee engagement.

Lynne has worked with a number of household names in senior HR and strategic roles including Waitrose, Tesco, Whitbread, BUPA, Carphone Warehouse and Selfridges Group and is experienced in leading major change and integration programmes. As Group Organisation Development Director for Whitbread plc she led a major change programme, which subsequently became a Harvard case study.

Lynne's most recent role as Group HR Director for Selfridges Group saw her successfully lead a significant family and top team succession plan before leaving in January 2019 to pursue a Non-executive and business advisory portfolio career.

Key External Appointments:

Non-executive Director of William Hill Plc

An experienced Board with over

48 years'

combined experience at Treatt

Committee Membership key

- Nomination Committee
- Audit Committee
- Remuneration Committee
- Committee chair

1 Senior Independent Director.

Corporate Governance Statement

At Treatt our commitment to effective corporate governance across the Group is reflected in our principles, policies and practices

Introduction from the Chairman

As the business continues to grow it needs a strong, effective and engaged Board, with the right skills and experience to oversee the strategy, governance, risk and financial frameworks across the organisation. During the year the Board was refreshed with the appointment of two independent Non-executive Directors, Yetunde Hofmann and Lynne Weedall. My colleagues and I were delighted to welcome Yetunde and Lynne, who bring significant experience, to the Treatt Board.

The highest standards of governance drive the Company in balance with the interests of its shareholders, employees, the environment and its wider stakeholders of customers, suppliers and the communities in which the Company does business. At Treatt our commitment to effective corporate governance across the Group is reflected in our principles, policies and practices. I am clear that good governance ultimately produces a better company and optimum long-term performance.

As Chairman, one of my key tasks is to ensure that the Board and its committees conform with the highest standards of corporate governance. Whilst the new 2018 UK Corporate Governance Code only applies to Treatt's financial year commencing 1 October 2019, we have sought early compliance with as many of its provisions as possible, with the remainder to be implemented during the course of 2019/20.

Board effectiveness

Our annual Board meeting at Treatt USA took place in March, enabling the Board to see the completed site expansion, which brings much needed additional capacity, and share the opening of the facility with our US employees, who have continued to work so diligently through a period of significant upheaval. I also visited in September 2019 with Lynne Weedall, as part of her induction process; Yetunde Hofmann was able to attend in March with the rest of the Board. Whilst visiting Treatt USA I have taken the opportunity to engage with our US employees through open door sessions where any member of staff is able to drop in and chat about any matter they wish. These Employee Voice sessions, also held in the UK by both David Johnston and me have, pleasingly, been very well supported and are invaluable to the Board in gaining employees' perspectives on the business and ensuring that all staff know that the Board and its Chairman can always be approached. I thank employees for their openness and honesty, and their willingness to engage.

This year there were slightly fewer formal Board meetings compared with last, when the Board had required additional meetings in respect of the equity fundraise and the sale of Earthoil Plantations. I am in regular contact with the executive team and the rest of the Board as I aim to ensure that there is an appropriate level of support, oversight and challenge, a focus on entrepreneurship as much as on risks, a commitment to transparency and a culture of continuous improvement.

As mentioned above, we welcomed two Non-executive Directors to the Board and said goodbye to Anita Haines, who retired following 31 years of service to Treatt. I have continued to meet with the Non-executive Directors without the presence of the Executives. The Nomination Committee continues to review the Board's composition to ensure that it maintains appropriate skills, experience, independence and diversity and that its culture is based on open and collegiate accountability whilst encouraging constructive debate and robust challenge.

The Board underwent its first external evaluation this year, which has provided additional focus on a number of areas and has proved very worthwhile. As part of the process all Directors were evaluated on their individual performance. Further information is provided on page 61.

Compliance with the Corporate Governance Code

The Company is subject to the 2016 UK Corporate Governance Code, which is issued by the Financial Reporting Council (FRC) and is available at www.frc.org.uk. The Code is a guide to a number of key components of effective board practice and is based on the underlying principles of good governance: accountability, transparency, probity and focus on the sustainable success of a company over the longer term. UK listed companies are required to disclose whether they have complied with the Code throughout the financial year and provide an explanation where they have not done so.

I am pleased to report that throughout the year ended 30 September 2019 the Group has complied with the provisions set out in the 2016 Corporate Governance Code.

Tim Jones
Chairman

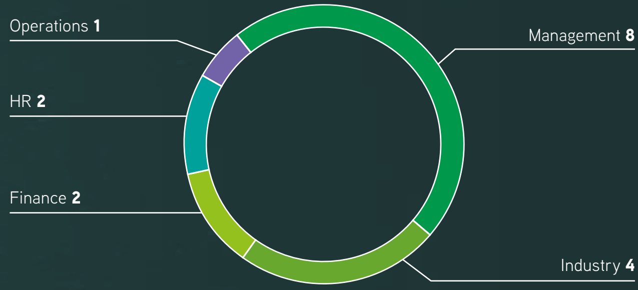
7

Board meetings in the year

97%

Meeting attendance

Board experience



Leadership

Roles and responsibilities

Details of the Directors who served during the year, the positions they hold, and the committees of which they are members are shown on pages 56 and 57. The Board consists of Non-executive Chairman, Tim Jones, and five further Non-executive Directors together with Daemmon Reeve, CEO, and Richard Hope, CFO.

There is a clear division of responsibility between the CEO, whose primary role is the day-to-day running of the Company's businesses, the development and agreement with the Board of the strategy required to best promote the success of the Company in the best interests of its shareholders and wider stakeholders and the implementation of that strategy, and the Chairman who is responsible for leadership of the Board and ensuring it operates effectively and entrepreneurially for the Group.

The Chairman ensures that the Board and its committees are effective and operate under the highest standards of corporate governance; the Chairman sets the Board agenda, ensures that adequate time is allowed for discussion, in particular, of strategic, complex or contentious issues in anticipation of which accurate, timely and clear information has been circulated in good time; ensures appropriate delegation of authority from the Board to executive management and constructive, open relations between them; acts at the same time as a sounding board, counsel and mentor to the CEO; ensures that the Company maintains a dialogue with its principal shareholders about strategy, direction, Directors' and senior managers' remuneration and is aware of shareholders' issues or concerns; ensures that employees are able and encouraged to maintain dialogue directly with the Board; and ensures that the performance of individual Directors and the whole Board and its committees is evaluated at least annually and that Directors are continually encouraged to update their skills and the knowledge and familiarity with the Company as required to fulfil their role.

The Chairman has regular contact with the Non-executive Directors without the presence of the Executive Directors. Concerns relating to the executive management of the Group or the performance of the other Non-executive Directors may be raised with David Johnston, who is the Senior Independent Director ('SID'). The role of the SID is also to provide a sounding board for the Chairman, to serve as an intermediary for the other Directors and to lead the performance evaluation process for the Chairman.

Operation of the Board

The Board has a schedule of matters reserved to it for decision and the requirement for Board approval on these matters is communicated widely throughout the senior management of the Group. These matters, which are reviewed periodically, include strategy, material capital commitments, commencing or settling major litigation, business acquisitions and disposals, appointments to subsidiary company boards, risk, dividend policy and full and half year results.

The Board meets formally a minimum of six times a year with additional meetings held as required. Meetings are scheduled around events in the corporate calendar such as the full and half year results, year-end and the Annual General Meeting. Standing agenda items include updates from the CEO on performance of the business against strategic objectives, a review of the financial and trading position from the CFO, Health & Safety, HR and Legal. In the last few years, time has also been dedicated to the US site expansion and the UK site relocation at each meeting. During the year, the Board holds days dedicated to discussion of key matters including Group strategy, Board evaluation and performance and risk evaluation and mitigation.

Day-to-day management of the Group is delegated to the Executive Directors, who are supported by a Senior Leadership Team, with members located in the UK and US. The Executive Directors attend Treatt USA Board meetings with the US members of the Senior Leadership Team at least six times a year and have regular contact outside of these meetings, with the CEO travelling to the US on a regular basis. Meetings are held with the UK members of the Senior Leadership Team on a six-weekly basis.

Committees

The Board has three sub-committees; the Nomination Committee chaired by Tim Jones, the Audit Committee chaired by Jeff Iliffe and the Remuneration Committee chaired by David Johnston. During the year the Board reviewed the membership of these committees and made changes following the appointment of Yetunde Hofmann and Lynne Weedall. Although the Chairman is no longer a member of the Remuneration Committee, he regularly attends the committee meetings at the invitation of the committee Chairman. Delegation of responsibilities to these committees ensures that sufficient time is spent on matters within their responsibility.

Further details of the committees can be found on pages 64 to 83. The terms of reference of all the committees can be found on the Treatt website at www.treatt.com.

Corporate Governance Statement continued

Attendance at meetings

The members of the Board during the year and its committees, together with their attendance, are shown below:

	Board	Audit Committee	Nomination Committee	Remuneration Committee	Chairman
Number of meetings held in year	7	3	2	6	
Daemmon Reeve – Chief Executive Officer	7	N/A	2	N/A	
Richard Hope – Chief Financial Officer	7	N/A	N/A	N/A	
Tim Jones – Non-executive Director and Chairman (stepped down from Remuneration Committee on 13 May 2019)	7	3	2	4	Board & Nomination
David Johnston – Senior Independent Non-executive Director (stepped down from the Nomination Committee on 13 May 2019)	7	3	1	6	Remuneration
Richard Illek – Non-executive Director (stepped down from the Remuneration Committee on 13 May 2019)	6	N/A	2	3	
Jeff Iliffe – Non-executive Director (stepped down from the Nomination Committee on 13 May 2019)	7	3	1	6	Audit
Yetunde Hofmann – Non-executive Director (appointed to the Board 20 March 2019 and appointed to the Remuneration and Audit Committees on 13 May 2019 and the Nomination Committee on 21 November 2019)	3	1	N/A	1	
Lynne Weedall – Non-executive Director (appointed to the Board 6 April 2019 and appointed to the Remuneration and Nomination Committees on 13 May 2019)	3	N/A	1	2	
Anita Haines – Non-executive Director until 25 January 2019	2	N/A	1	N/A	

Effectiveness

Board composition

The Board has been regularly refreshed to ensure that it has an appropriate balance of skills and experience with financial, technical, industry-specific and general business disciplines being represented. The structure of the Board ensures that no one Director is dominant in the decision-making process and that open debate and discussion is encouraged. There is a suitable balance between the number of Executive and Non-executive Directors.

The importance of Board diversity, which remains a subject of debate in respect of Board composition, is recognised and supported by the Directors of Treatt. Our policy is to recruit the best possible candidate for each individual role having regard to qualifications, experience and personality, without prejudice to a candidate's gender, sexual orientation, disability and other characteristics. Further details on the Group approach to diversity are given on pages 50 and 51.

The Board considers that all of the Non-executive Directors are independent of management and free of any relationship which could materially interfere with the exercise of their independent judgement. In compliance with the Corporate Governance Code at least half of the Board are Non-executive Directors, which the Board considers to be independent. The Chairman, Tim Jones, was independent on appointment and in the opinion of the Board, remains independent. On 20 May 2020 David Johnston will have served nine years on the Board and therefore, in line with best practice under the UK Corporate Governance Code, the Board will no longer consider David Johnston as independent from this date. Consequently, he will step down as Chair of the Remuneration Committee, as a member of the Audit Committee and as Senior Independent Director and appropriate appointments will be made to these positions. At this time, it is intended that Lynne Weedall will succeed David Johnston as Chair of the Remuneration Committee, having had significant experience as Chair of Greene King's Remuneration Committee. The Board has determined that it is in the best interests of the business and its stakeholders for David Johnston to remain on the Board, subject to re-election at the 2020 Annual General Meeting. His contribution to the Board is considerable; his deep technical knowledge and insight into global flavour and fragrance innovations, coupled with his knowledge of the natural and sugar reduction markets and his independence of thought in the context of the Company's operations are, and will continue to be, of enormous value to the Board. All Non-executive Directors receive a fixed fee for their services. However, in exceptional circumstances, where significant additional time commitment is required, a Non-executive Director may, if approved by the Board or Remuneration Committee, be paid an additional fee in accordance with the Remuneration Policy.

Appointments to the Board

A formal process is undertaken for the search and selection of appropriate candidates for Board vacancies, details of which are set out in the Nomination Committee report on pages 64 and 65.

Where appropriate, on appointment Directors are provided with access to relevant training and advice in respect of their role and duties as a public company director. All new Directors receive an induction to acquaint them with the Group. This takes the form of site tours, meetings with other Board members and senior management and the provision of a comprehensive induction pack, which contains general information about the Group, its structure and key personnel, together with copies of relevant policies and procedures, financial information and briefings on Directors' responsibilities and corporate governance.

Commitment

The Board typically meets between six and ten times each year and more frequently where business needs require; one meeting a year is held at Treatt USA. Directors are required to be available for meetings and the Annual General Meeting with attendance in person or if necessary by video conference, except where prior engagements exist. To facilitate this, meetings are scheduled two years in advance. In addition, contact is maintained between meetings to ensure regular input from all Board members in respect of ongoing matters. It is anticipated that the time commitment required of Non-executive Directors is up to 30 days a year and more for the Chairman. During the year, changes have been made to strengthen the provisions of the service contracts of Non-executive Directors so that they are not permitted to accept other board appointments without approval from the Board, which will consider any potential conflicts of interest with the Group or potential constraints on time required to fulfil the commitment to the Company. Subsequent to her appointment in April 2019, and following a discussion with the Chairman, Lynne Weedall accepted a position as a Non-executive Director of William Hill plc. The Board is satisfied that the other commitments of Board members do not detract from the extent or the quality of the time which they are able to devote to the Group.

Development

The Chairman is responsible for ensuring that all Non-executive Directors receive ongoing training and development. In 2018 the Board became members of the Institute of Directors ('IoD'), and registered with the IoD Academy, providing a range of learning and development programmes to expand and update Directors' knowledge and skills. Directors are able to access appropriate CPD content from a variety of sources in addition to attendance at seminars and workshops. Membership of the IoD has been renewed for 2019. Our Directors understand the need to keep themselves properly briefed and informed about current issues. Regular updates on regulatory and legislative developments are provided to the Board by the Company Secretary.

Information and support

Contact is maintained by the Board through email and telephone with written updates provided in respect of on-going issues, enabling regular input from all Board members. To enable the Board to function effectively and Directors to discharge their responsibilities, full and timely access is given to all relevant information. In the case of Board meetings, this consists of a comprehensive set of papers, including regular business progress reports and discussion documents regarding specific matters. Board meetings are of sufficient duration to enable debate and discussion, ensuring adequate analysis of issues during the decision-making process. Further opportunity for more informal and extended discussion is provided at Board lunches which take place after every Board meeting and also provide the Board with an opportunity to meet members of staff, who are sometimes invited to attend.

If necessary, there is an agreed procedure for Directors to take independent professional advice at the Group's expense. This is in addition to the access which every Director has to the Company Secretary. The Secretary is charged by the Board with ensuring that Board procedures are followed and that there are good information flows within the Board and its committees and between senior management and Non-executive Directors.

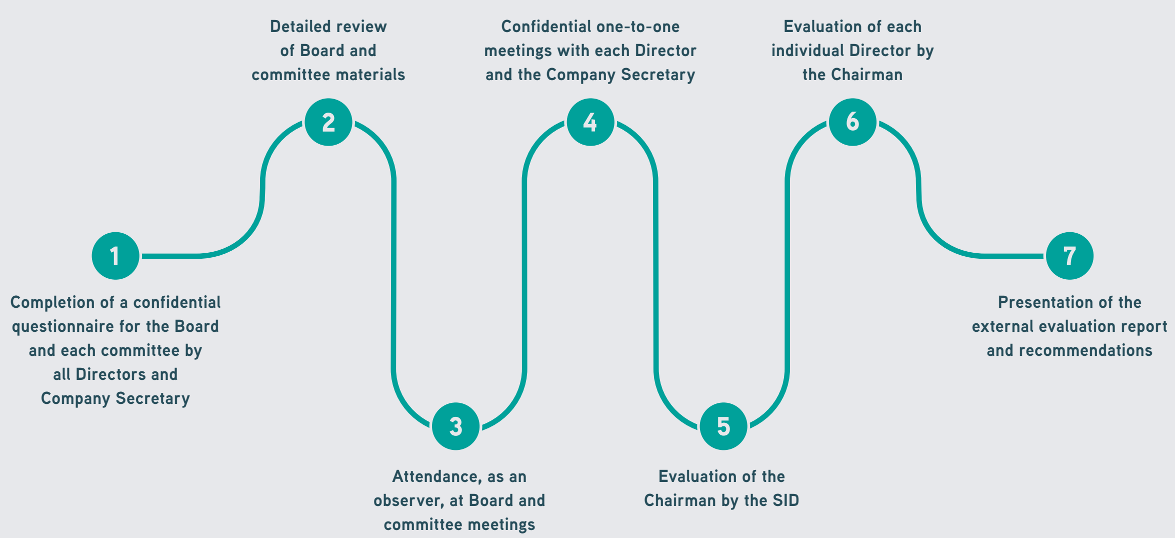
Evaluation

The Board evaluation is performed annually and, notwithstanding the fact that the Company is deemed to be a smaller company under the 2016 Corporate Governance Code, it voluntarily met the requirement of provision 21 of the 2018 Code in undertaking an external evaluation.

The external Board and committee evaluation was undertaken by Board Excellence, an advisor with no other connection to the Company.

Board evaluation process

The evaluation process involved a number of stages to ensure it was sufficiently robust:



Corporate Governance Statement continued

The Group places a great deal of importance on communication with its customers, employees and shareholders

Evaluation continued

The evaluation report, which rated the Board's effectiveness and performance as strong overall, made a number of recommendations, which have been considered by the Board and will be actioned appropriately. It was agreed that the Board has benefitted from the insight provided by an independent evaluator, which will enable continuous improvement.

As part of the Board evaluation process, the performance of individual Executive and Non-executive Directors was evaluated by the Chairman with objectives being identified for the coming year. The Chairman was evaluated by the Senior Independent Director, having sought input from the other Non-executive Directors.

Re-election

The Company voluntarily meets the requirements of provision 18 of the 2018 Corporate Governance Code, in that all Directors offer themselves for re-election annually. Following the annual evaluation of the Board and its committees, the Nomination Committee has determined that all Directors standing for re-election at the Annual General Meeting continue to be effective, hold recent and relevant experience and continue to demonstrate commitment to the role. Biographical details of each Director standing for re-election are set out on pages 56 and 57.

Relations with shareholders and other stakeholders

Many people and organisations have an interest in our business and how we work.

Our stakeholders include:

- Shareholders and investors
- Employees
- Customers
- Suppliers and partners
- Local communities
- Regulators
- Industry peers

Shareholders

The Group places a great deal of importance on communication with shareholders and recognises their role in safeguarding the Company's effective governance. The Board receives updates on the views of our shareholders expressed during our interactions with them and from our brokers.

In the event that shareholders have any concerns, which they do not wish to address through the CEO or CFO, the Chairman or Senior Independent Director are available to address them. Both make themselves available, as required, for meetings with shareholders on issues relating to the Company's governance and strategy.

Engagement with shareholders may take place through:

Results presentations	Shareholder meetings	Annual General Meeting	Consultation	Information
We hold three days of analyst and investor meetings and presentations following the release of our full and half year results in which we aim to see as many institutional shareholders as possible, providing them with an opportunity to ask questions about the Company. We make these presentations available to all shareholders through our website.	During the year, conference calls and meetings took place with existing and potential shareholders at the Company's registered office and at potential investors premises in the UK and in Germany. These meetings were attended by either the CEO or the CFO or both. The meetings provide an overview of our business and the industry in which we operate and focus on the implementation of our strategy.	The Annual General Meeting, generally held at the registered office, gives shareholders the opportunity to meet with Directors individually both before and after the meeting and to hear about the general development of the business and to ask questions of the Board.	In recent years we have consulted with our major shareholders in relation to Director remuneration and auditor rotation. Consultation provides us with an opportunity to gauge shareholder opinion and respond to any concerns raised.	We provide updates on the progress of the business through regulatory news announcements, press releases and updates to the investor section of our website.

Engagement with other stakeholders is important and takes place through:

Employees	Customers	Suppliers	Communities
Engagement with employees is essential for the success of the business; many of our employees are also shareholders. Engagement takes a variety of forms, including meetings with individuals, small groups and the whole workforce providing opportunities for questions and discussion. • Employee representative committee • Town hall meetings • Results presentations • Site relocation open days • Open door sessions with the Chairman and designated Non-executive Directors	It is important that we understand our customers' requirements to allow us to deliver the products they need and to develop innovative solutions for beverage and flavour and fragrance applications. • Providing customers with our Market Intelligence Reports • Visits to customers with technical specialists • Collaboration with customers in our labs developing products for existing applications or new product development	We have a strong supplier base, located all over the world. To grow sustainably, we need strong supplier relationships to generate and capture value. We want to deal with those suppliers who are committed to Treatt and our values. • Our Supplier Code of Conduct makes clear our expectations of suppliers when it comes to ethical behaviour and social and environmental responsibility • Supplier visits • Initial qualification process and requalification every three years	We care deeply about the communities in which we operate and have spent time developing relationships with our local communities, providing support and opportunities where we are able to do so. We manage community relationships locally, with each business focusing on communities important to them. • Provision of work experience, internships and sponsorship of academic and careers events • Workforce volunteering • Donations and sponsorship • Local press releases

This report was approved by the Board on 25 November 2019.

Anita Guernari

Group Legal Counsel
and Company Secretary

Nomination Committee

The Nomination Committee is responsible for the annual evaluation of the Board, its committees and its Directors

Introduction

I am pleased to introduce our Nomination Committee report, which explains the committee's focus and activities during the year. The committee has sought to ensure that the size, composition and structure of the Board are appropriate for the delivery of the Group's strategic objectives.

Nomination Committee members

Tim Jones
Chairman

Daemmon Reeve
Chief Executive Officer

Richard Illek
Non-executive Director

Lynne Weedall
Non-executive Director

Yetunde Hofmann
Non-executive Director

Membership and meetings

Membership of the committee was refreshed during the year following the appointments of Yetunde Hofmann and Lynne Weedall to the Board. As a result, Jeff Iliffe and David Johnston stepped down from the committee, with Lynne Weedall appointed, effective 13 May 2019. The subsequent appointment of Yetunde Hofmann was effective 21 November 2019. Current membership is therefore Tim Jones (Chair), Daemmon Reeve, Richard Illek, Lynne Weedall and Yetunde Hofmann.

The committee has met twice during the course of the year.

Role and responsibilities

The committee operates under terms of reference, which are reviewed annually and are available on the Group's website. The main responsibilities of the Nomination Committee are:

- to regularly review the structure, size and composition (including the skills, knowledge, experience and diversity) of the Board and its committees and make recommendations to the Board with regard to any changes that are deemed necessary;
- to identify and nominate candidates for the approval of the Board to fill Board and committee vacancies as and when they arise;
- to oversee succession planning for the Board and senior management, taking into account the challenges and opportunities facing the Group and the skills and expertise needed on the Board for the future; and
- to review the results of the Board and committee performance evaluation process that relate to the composition of the Board and committees and to assess whether the Non-executive Directors are providing sufficient value in fulfilment of their duties.

Activities since the last report

- recruitment of Yetunde Hofmann and Lynne Weedall;
- receive a report from the Chairman on the individual evaluation of the Directors;
- the commission and review of the external Board evaluation as it relates to the composition of the Board and performance of the committee;
- review the time commitment required from Non-executive Directors and determine whether sufficient value is being provided to the Company;
- Board succession planning;
- writing to our largest shareholders in respect of the intention for David Johnston to remain on the Board as a Non-independent Non-executive Director post May 2020;
- receive an update from the Global Head of HR on senior management and organisation succession plans; and
- review of the terms of reference of the committee.

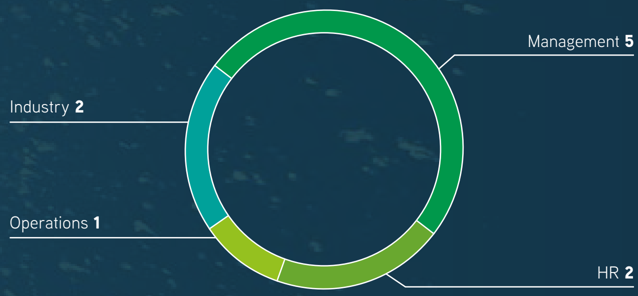
2

Board meetings in the year

100%

Meeting attendance

Nomination Committee experience



Appointments

Appointments to the Board of both Executive and Non-executive Directors are considered by the Nomination Committee, which ensures that a wide range of candidates are considered. The committee, using the skills matrix of the Board, considers the skills mix to identify potential gaps or areas where increased strength is required. The skills matrix requires Board members to rate the strength of their experience in a range of skills across areas such as strategy, finance, risk management, stakeholder engagement and corporate governance and ethics. The skills matrix is reviewed annually by each Director and the Chairman.

With the retirement of Anita Haines in January 2019, the committee identified a need for skills and experience in people, coaching, strategic planning and change management. The committee engaged Pure Executive, an independent search and selection agency, which is a division of Pure Resourcing Solutions Limited. Both Pure Executive and Pure Resourcing have previously provided recruitment services to Treatt but do not provide any other services. Pure Executive were instructed to search for suitable candidates for the role of Non-executive Director and provide an initial shortlist to the committee. The time commitment required for the role and existing demands on a candidate's time were considered as part of the selection criteria. Members of the committee were involved in the initial interview process with Board members meeting the final shortlisted candidates. The appointment of the new Directors was approved by the Board unanimously.

Succession planning for the Board and senior management, together with the structure of the Board will continue to be a focus of the committee during the forthcoming year.

Diversity

The Board recognises the benefit of having an appropriate level of diversity on the Board and in management positions throughout the Group to support the achievement of its strategic objectives. The committee considers the benefits of all aspects of diversity including, race, gender, disability, sexual orientation, religion, belief, age and culture when appointing Non-executive Directors. Independence is also a key consideration.

During the year the Board increased from seven to eight Directors and from one to two women (25%). The Board is mindful of the current gender imbalance but believes that there is good diversity of skills, experience, independent thinking and cognitive style on the Board.

Further details on gender diversity within the Group are set out on pages 50 and 51.

Committee evaluation

As noted elsewhere in this report, an external evaluation was undertaken in relation to the Board and its committees. The evaluation report for the Nomination Committee concluded that its performance was good and made a number of recommendations for the forthcoming year: to focus on talent development and diversity across the Group and to continue succession planning and structural review of the Board.

Tim Jones

Chairman

Nomination Committee

This year's achievements

- Refreshing the Board with the appointment of two Non-executive Directors
- Commissioning an external Board evaluation
- Board succession planning

Future plans

- Enhanced Leadership Development
- Improved oversight of senior management succession plans
- Further review and development of Board and committee memberships

Audit Committee

The Audit Committee is an essential part of Treatt's governance framework which oversees accounting and financial reporting processes

Accountability

Membership and meetings

Membership of the Audit Committee was refreshed with effect from 13 May 2019 with the appointment of Yetunde Hofmann to the committee. Current membership is therefore Jeff Iliffe (Chair), Tim Jones, David Johnston and Yetunde Hofmann. Each of the members is deemed to be independent. Jeff Iliffe joined the committee as Chairman in February 2013 and is deemed by the Board to have significant, recent and relevant financial experience. He is a Chartered Accountant with over 20 years' experience in the financing and management of companies, both in the City of London and in industry. The other members of the committee have financial and commercial expertise, with David Johnston having significant industry knowledge and experience.

The committee met three times during the year. The auditor attended two of these meetings other than when their appointment or performance was being reviewed. The CEO, CFO and other senior finance staff were invited to attend as appropriate. The committee has discussions at least once a year with the auditor without management being present. Furthermore, the committee Chairman meets informally with, and has access to, the CFO to discuss matters considered relevant to the committee's duties and maintains a regular dialogue with the audit partner.

Audit Committee members

Jeff Iliffe
Non-executive Director

Tim Jones
Chairman

David Johnston
Non-executive Director

Yetunde Hofmann
Non-executive Director

Role and responsibilities

The committee operates under terms of reference, which are reviewed annually and are available on the Group's website. The main responsibilities of the Audit Committee are:

- to review the Group's Annual Report and any formal announcements relating to the Group's financial performance and to report to the Board on significant financial reporting issues and judgements contained therein, having regard to matters communicated to it by the auditor;
- to review the content of the Annual Report and advise the Board on whether, taken as a whole, it is fair, balanced and understandable, and provides the information necessary for shareholders to assess the Group's performance, business model and strategy;
- to oversee the relationship with the auditor and assess the effectiveness of the external audit process, including making recommendations to the Board on their appointment, remuneration and terms of engagement. The committee also monitors their independence and objectivity;
- to make recommendations to the Board on the requirement for an internal audit function; and
- to ensure that procedures are in place whereby staff of the Group may, in confidence, raise concerns about possible improprieties in matters of financial reporting or other matters. The Group has arrangements in place for the proportionate and independent investigation of such matters and for appropriate follow-up action.

Activities since the last report

- review of and report to the Board on the half year report and trading update;
- meeting with the audit partner to approve the audit plan and identification of risks;
- reviewing the auditor's findings, management's response and ensuring robust challenge;
- reviewing the auditor's performance and the audit process to ensure that they remain objective and independent, and to assess the effectiveness of the audit, providing feedback to the auditor in this respect;
- approval of the fees paid to the auditors for audit and non-audit work;
- review of and report to the Board on the Group's Annual Report for 2019 to ensure that, taken as a whole, it was fair, balanced and understandable. This included consideration of a report from the auditor on their audit and review of the financial statements, significant financial reporting issues and judgements contained therein, and discussions with management;
- review of the clarity and completeness of the treatment and disclosure of exceptional items;
- giving consideration to any whistleblowing reports (of which there were none during the year);
- reviewing the potential requirement for an internal audit function;
- commencement of the audit tender process;
- reviewing the operation of the policy on the provision of non-audit services by the external auditor and approving any such work undertaken;
- reviewing the performance of the Audit Committee; and
- reviewing the terms of reference of the Audit Committee.

3

Board meetings in the year

100%

Meeting attendance

Audit Committee experience

Financial reporting

During the year the committee and the Board monitor the integrity of any formal announcements relating to the Group's financial performance. Reports are requested from management on particular matters, especially where a significant element of judgement is required. Additionally, the Chairman of the committee has regular contact with the audit partner and the committee meets with the audit partner without the presence of the Executive Directors.

In respect of the Annual Report, the Chairman of the committee reviews early drafts to keep appraised of its key themes and to raise any issues early in the process. The 2019 Annual Report was reviewed at a committee meeting in November 2019; after due challenge and debate the committee was content with the appropriateness of the accounting policies adopted, and that the key judgements applied, which where possible are supported by external advice or other corroborative evidence, are reasonable and therefore agreed with management recommendations.

Having discussed the key judgements and risk areas monitored by the auditors, the Board concluded that, as in prior years, the half year results would not be subject to an external audit or a formal audit review. In reaching that conclusion, regard was given to the matters subject to judgement and the processes established for addressing and supporting these, the output of the enhanced work undertaken on risk identification and management, the consistent application of accounting policies, and the practice of similar-sized listed companies. The review by the Board prior to approval of the half year report included the receipt of a report from management on the key areas of judgement made for the half year results and how the outputs were arrived at.

Significant judgements and issues

Amongst the matters considered by the committee were the key accounting issues, matters and judgements in relation to the Group's 2019 Annual Report and financial statements relating to:

- the level of provisions against obsolete, slow moving and defective inventory, and for onerous customer contracts which are likely to result in a loss to the Group. This involved discussions with management on the detailed exercises undertaken to identify the relevant provision levels, and with the auditors on their findings following their review of the work done and the controls in place over these processes;
- the assumptions used to calculate the Group's pension liability in accordance with IAS 19 arising from the final salary pension scheme. This included confirming that they are in accordance with advice received from the scheme actuaries, Barnett Waddingham, and that these assumptions had been critically reviewed by the auditors; and
- IFRS 15, 'Revenue from contracts with customers', has been adopted for the first time in the 2019 financial year. The core principle of IFRS 15 is that an entity should recognise revenue when (or as) a performance obligation is satisfied, i.e. when control of the goods or services underlying a particular performance obligation is transferred to the customer. The key performance obligation is considered to be satisfied at the point in time that the goods are either collected by, or despatched to, thecustomer irrespective of the terms of trade. This is consistent with the policy adopted in prior years. The application of this judgment was reviewed by the committee and after discussion with the auditors was concluded to be consistent and appropriate. A high-level exercise was undertaken to assess what the impact would have been to adopt the terms of trade to determine revenue cut-off as an alternative, which showed that the profit before tax impact on the year's results would have been less than £0.2m.

Future plans

- Completion of the audit tender process
- Implementation of the relevant provisions of the 2018 Corporate Governance Code

Audit Committee continued

Fair, balanced and understandable

In assessing whether the Annual Report, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy, the committee ensures that:

- an experienced team is responsible for co-ordination of content, which is subject to a detailed cross-functional review;
- senior management confirm that the content in respect of their areas of responsibility is considered to be fair, balanced and understandable; and
- the committee receives an early draft of the Annual Report to enable timely review and comment.

These processes allowed the Audit Committee to provide an assurance to the Board to assist them in making the statement required by the 2016 UK Corporate Governance Code.

The Committee also reviewed compliance with the disclosure requirements on Directors' remuneration and the Strategic Report.

Risk management and internal controls

The committee continues to consider the requirements of the 2016 UK Corporate Governance Code and the FRC Guidance on Audit Committees. Following reviews in 2015 and 2018, responsibility for risk management and monitoring the effectiveness of internal controls remain with the full Board, rather than being delegated to the Audit Committee. Consistent with this approach, the Board also retains responsibility for reviewing the assumptions underlying both the going concern and longer-term viability statements made in the Annual Report as detailed on pages 85 and 86. As the Group continues to grow, the delegation of these matters will remain under review. The principal risks and uncertainties are set out on pages 36 to 41.

The committee annually reviews the requirement for an internal audit function. Given the size and structure of the Group, and the level of control exercised by the management team, the establishment of a formal internal audit function was not considered to be necessary at present. The Group maintains an in-house function, which is overseen by the Technical Compliance Teams in the UK and US. Employees, who have received internal training, audit compliance against high-level procedures in our quality manual and undertake a series of unannounced monthly inspections in operational areas in order to review compliance with processes and internal controls. Any non-compliance or recommendations for improvement are reported to Technical Compliance, who oversee corrective actions. This provides assurance to the Board of the adherence to operational internal controls across the Group.

During the planning phase of the audit the auditors re-confirm their understanding of the internal controls relevant to the audit. Where they plan to place reliance on internal controls, they will test the operation of those controls and if their examination of internal controls leads them to believe there may be significant deficiencies therein, they will report their findings to the Audit Committee.

Audit quality review

The Audit Quality Review team of the FRC reviewed the work performed by RSM for the audit of the Company for the year ended 30 September 2018. The FRC has provided a copy of their confidential report to the Chairman of the committee and it has been reviewed and discussed by the committee and with RSM. Areas of the external audit procedures were identified as requiring improvement and the committee is satisfied with the responses which were implemented by RSM for the audit of the Group's financial statements for the year ended 30 September 2019. The committee is content that the matters raised were appropriately addressed and do not give it concerns over the quality or independence of the audit.

External auditor assessment

The committee has oversight of the relationship with the external auditor and is responsible for monitoring their independence, objectivity and compliance with professional and regulatory requirements. The committee undertakes an annual assessment of the effectiveness of the external auditor to facilitate continued improvement in the external audit process. This assessment considers:

- the delivery of an efficient, robust audit in compliance with the agreed plan and timescale;
- the provision of robust and perceptive advice on key areas of judgement, and technical issues;
- the demonstration of a high level of professionalism and technical expertise;
- continuity within the audit team; and
- adherence to independence policies and other regulatory requirements.

The committee has monitored and discussed RSM's performance and was satisfied that the above requirements have been met and that they demonstrated commitment to perform high-quality work.

External auditor independence and tendering process

RSM has, in one form or another through various changes of name and consolidation with other audit firms, been Treatt's auditor for 32 years. There has of course been a succession of different personnel involved with Treatt through these years, although a small number of RSM employees, who are no longer involved in the provision of audit services, have been with the firm for a significant period during this time and continue to be employed by RSM.

The continued engagement of RSM is compliant with legislative and governance requirements and in accordance with the requirement to rotate the audit partner every five years, a new audit partner, who had no previous connection with Treatt, was appointed in 2017. The Board and the external auditor have arrangements to safeguard the independence and objectivity of the external auditor, which were reviewed and deemed satisfactory.

As reported previously, a competitive tender process will be completed by mid-2020. The intention is for the new auditors to undertake the FY2020 audit and in the meantime for RSM to continue as Group auditors.

The committee has undertaken an assessment of the effectiveness of RSM's performance and relationship with Treatt and was satisfied that RSM delivered a robust audit and remains independent of Treatt. The committee has therefore recommended to the Board that RSM UK Audit LLP be reappointed at the Annual General Meeting in 2020 to continue in the role until the appointment of new auditors.

The level of non-audit fees and their effect on the auditor's independence or objectivity is also considered on a regular basis. The split between audit and non-audit fees for the year under review appears in note 5 to the financial statements. Following the publication of the FRC Revised Ethical Standard 2016, RSM no longer provides tax compliance and other tax services to the Group. The committee has a policy for the provision of non-audit services to ensure that objectivity and independence are not compromised and that it is in line with the Standard. Under the policy, all non-audit services to be contracted with the external auditor will require the approval of the committee. When considering the use of the auditor to undertake such assignments, consideration will be given at all times to the provisions of the FRC Guidance on Audit Committees with regard to the preservation of independence.

Whistleblowing

We require our employees and business partners to maintain the highest standards of integrity and to act in good faith. Although our open culture encourages the raising of issues, we recognise that there might be times when it is not appropriate, or a person will not be comfortable, raising a concern with their line manager. The committee is satisfied that appropriate arrangements are in place so that employees of the Group may, in confidence, seek advice or raise concerns about possible illegal or unethical practices or matters of integrity. The Group-wide Whistleblowing Policy provides staff with a direct means of contacting, in confidence, the Chairman of the Board, the Audit Committee Chairman or the Senior Independent Director if they feel unable to discuss a matter with their line manager or a member of senior management.

No employee will be victimised or prejudiced because they have raised a legitimate concern and if misconduct is discovered as a result of any investigation under this procedure the organisation's disciplinary procedure will be used, in addition to any appropriate external measures.

Effectiveness of the Committee

The effectiveness of the committee was considered as part of the external review of the Board and its committees detailed on pages 61 and 62. The evaluation report for the Audit Committee was reviewed by the committee in detail. The committee received positive feedback on its strong delivery of its mandate to the Board and the appropriate balance between support and challenge. It was noted that succession planning is required for the Chairman of the Audit Committee in due course.

Jeff Iliffe
Chairman
Audit Committee

Directors' Remuneration Report

The policy is to ensure that remuneration structures are transparent and proportionate

Chairman's statement

On behalf of the Remuneration Committee, I am pleased to present the Directors' Remuneration Report for 2019.

As in past years, the Directors' Remuneration Report is in three sections:

- The Chairman's introductory statement;
- The Directors' remuneration policy; and
- The Implementation Report.

The Directors' remuneration policy was approved by over 99% of shareholders voting at our 2018 AGM. As no changes are proposed to our policy for 2020, the policy is included for information only. The Implementation Report, which details the remuneration paid to the Directors during the financial year under review, will, as normal, be put to an advisory vote at the Annual General Meeting on 31 January 2020.

Future plans

- Implementation of the remuneration requirements of the 2018 Corporate Governance Code and The Companies (Miscellaneous Reporting) Regulations 2018
- Determining a new Remuneration Policy for consideration by shareholders at the 2021 AGM

Remuneration Committee members

David Johnston
Non-executive Director

Jeff Iliffe
Non-executive Director

Lynne Weedall
Non-executive Director

Yetunde Hofmann
Non-executive Director

The Remuneration Committee is mindful that there has been a considerable movement in the regulation of UK Directors' remuneration with the introduction of the 2018 Corporate Governance Code and the expansion of remuneration reporting requirements, included under the Shareholder Rights Directive. These changes become applicable to Treatt when we report our 2020 financial year. We will be considering how best to address these new obligations, particularly as we are a smaller Company with less than 250 employees in the UK.

Key performance outcomes for 2019

As detailed elsewhere in this report, the Group met expectations in 2019, with profit before tax, exceptional items and discontinued operations increasing for the seventh consecutive year. Following a review of the Group's performance against prior year and in accordance with the rules of the Executive Directors' Annual Bonus Scheme, the committee concluded that a bonus payment of 62.5% of salary was justified for the Executive Directors on the basis that annual growth in like-for-like profit before tax was 6% against a target of 10%.

In respect of the LTIPs granted to the Executive Directors in 2016, EPS growth over the three-year performance period has exceeded the performance target set by the Remuneration Committee at the time of grant (average annual growth of 10% or more over three financial years for full vesting) and accordingly they will vest in full in December 2019. These awards are subject to a further one-year holding period following vesting, save that a proportion of the shares will be permitted to be sold in order to satisfy any tax liability arising upon exercise. LTIP awards granted from 2017 are subject to a two-year holding period.

Overall, the Remuneration Committee is satisfied that the total remuneration received by Executive Directors in 2019 is a fair reflection of performance over the period.

Remuneration in 2020

As referred to above, we do not intend to make any changes to our policy or its implementation for 2020. In detail:

- Executive Directors' salaries will be increased by 2%, slightly lower than the overall increase in the UK payroll of 2.74%; and
- We will operate our annual bonus plan for 2020 on a basis consistent with that for 2019. Performance conditions will again be based on demanding PBT targets.

We will make further annual LTIP awards to our Executive Directors at a level of 100% of base salary, with performance conditions subject to targets based on growth in earnings per share over a three-year performance period, and with any vesting shares subject to a two-year holding period. For completeness, the fees of the Chairman and the Non-executive Directors will also increase by the 2% level referred to above (noting that the fees of the Non-executive Directors are appropriately approved by the Board and not by the committee).

We are happy to receive feedback from shareholders at any time in relation to our remuneration policies and hope to receive your support for the resolution on the Implementation Report referred to above at the forthcoming Annual General Meeting. I will be available at the Annual General Meeting to answer any questions you may have.

David Johnston
Chairman
Remuneration Committee

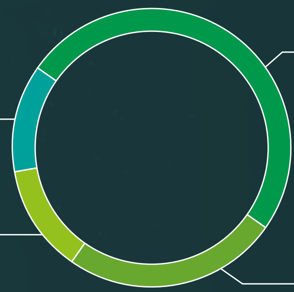
6

Board meetings in the year

93%

Meeting attendance

Remuneration Committee experience



Policy section

Remuneration policy report: provided for information

As approved at the 2018 Annual General Meeting and not subject to further approval at the Annual General Meeting in 2020.

The committee's policy is to ensure that remuneration structures are simple, transparent and proportional to the size and complexity of the business whilst ensuring that Executive Directors are fairly and competitively rewarded for the role they undertake. The main principles of the remuneration policy are:

- salaries should not be excessive when compared with similar sized companies;
- remuneration packages should align the interests of Directors with shareholders by using stretching performance metrics that provide a strong link to the creation of shareholder value;
- there should be an appropriate balance between fixed and performance-related pay to ensure delivery of results over the short, medium and longer-term;
- performance metrics should not encourage a culture of excessive risk taking;
- Directors should invest in and retain shares in Treatt; and
- salaries should be reasonable compared with those offered to others of the senior management team and the wider workforce.

The committee reviews its policy annually to determine whether it remains effective, is aligned to the Group strategy and that it promotes the long-term success of the Group. Emphasis will continue to be placed on longer-term share-based incentives to more closely align the interests of Directors with shareholders and provide stretching longer-term targets to encourage strong performance.

The current intention is that the framework of this remuneration policy will apply for three years from the date of the 2018 Annual General Meeting.

Executive Directors' remuneration

The table below sets out a summary of each element of the Executive Directors' remuneration, how it operates, the maximum opportunity available, and applicable performance metrics:

Element: base salary	
Purpose and link to strategy	Help recruit and retain high-calibre Executive Directors To provide a competitive salary relative to the size of the Group Reflects individual experience and the role
Operation	Reviewed annually by the committee with changes taking effect from 1 October unless a change in responsibility requires an interim review Influenced by the complexity of the role, personal performance and by the increase in salaries of other Group employees Benchmarked against companies of similar size and complexity at appropriate intervals
Maximum opportunity	Any basic salary increases are applied in line with the outcome of annual reviews Annual increases should not normally exceed the average salary increase of employees within the Group. Exceptions can be made when a review is required by a change in role or responsibility, or where there is a significant change in the role and/or size, value or complexity of the Group which has resulted in material market misalignment
Performance metrics	Not applicable

Directors' Remuneration Report continued

Executive Directors' remuneration continued

Element: benefits	
Purpose and link to strategy	Help recruit and retain high-calibre Executive Directors
Operation	Entitlement to the following benefits on the same terms as employees in the country in which the Director is resident: Private Healthcare – except that Daemmon Reeve also receives Family Cover; Life Assurance; Permanent Health Insurance; Car Allowance; All-employee share schemes Life Assurance for UK tax resident Directors will be provided by means of a Lifetime Plus Policy Any new benefits introduced to staff generally shall be provided to Directors on equal or comparable terms
Maximum opportunity	Except as otherwise stated these are on the same terms as the benefits received by other employees in the country in which the Director is resident
Performance metrics	Not applicable

Element: pension	
Purpose and link to strategy	Help recruit and retain high-calibre Executive Directors and to provide a competitive package
Operation	Entitlement to receive employer contributions into a defined contribution pension scheme on the same terms as employees in the country in which the Director is resident
Maximum opportunity	UK employees - 9% base salary contribution or 15% where previously a member of the defined benefit pension scheme (no personal contribution required in either case)
Performance metrics	Not applicable

Element: annual bonus[1-5]	
Purpose and link to strategy	Provides an element of at risk pay, which incentivises the achievement of good annual financial results Aligns Directors' interests with shareholders
Operation	The rules of the Executive Directors' Bonus Scheme and the performance targets are reviewed annually Annual bonuses are calculated by reference to the achievement of performance targets for the financial year and each Director is entitled to a percentage of salary based upon this calculation, subject to the maximum opportunity Bonuses are subject to determination by the committee in accordance with scheme rules after year-end and are paid in cash in December
Maximum opportunity	100% of salary per annum
Performance metrics	Bonuses are based on the growth in Group profit before tax and exceptionals before tax compared to the prior financial year, which aligns with all employee bonus schemes across the Group Bonus payments are based against financial performance on a sliding scale. No bonus is payable unless a minimum level of financial performance is achieved Different performance measures and/or weightings may be used for the annual bonus in future years to help drive the strategy of the business during the period of this policy, although the Remuneration Committee would expect to consult with leading shareholders before making material changes to the current performance measures applied The committee has the discretion to reduce bonuses where circumstances have created a sufficiently significant impact on the reputation of the Group to justify, in the view of the committee, the operation of this discretion

Element: Long Term Incentive Plan (LTIP)[1-5]	
Purpose and link to strategy	Incentivises Directors to achieve returns for shareholders over a longer time frame Aligns Directors' interests with shareholders
Operation	The committee will consider awards of shares under the LTIP annually and will review the quantum of awards to ensure that they are in line with market rates Awards will be made at nil cost, with vesting dependent on the achievement of performance conditions over a period determined by the committee, which shall be a minimum of three years Awards will be subject to a two-year holding period following vesting, net of any tax liability arising on either vesting or exercise The committee may also exercise the specific discretions contained within the rules of the scheme, as approved by shareholders
Maximum opportunity	100% of salary per annum based on market value of shares at date of grant
Performance metrics	The vesting of the awards will normally be based on growth in adjusted basic EPS exceeding a minimum level during the period from date of grant to date of vesting Targets are set by the committee for each award on a sliding scale basis. No more than 25% of awards will vest for threshold performance, with full vesting taking place for equalling or exceeding maximum performance conditions Different performance measures and/or weightings may be used for future LTIP awards to help drive the strategy of the business during the period of this policy, although the Remuneration Committee would expect to consult with leading shareholders before making material changes to the current performance measures applied Awards lapse if performance criteria are not met at the end of the three-year performance period

Element: share retention policy	
Purpose and link to strategy	Aligns Directors' interests with shareholders
Operation	Holding requirements: CEO – 200% of basic salary CFO – 150% of basic salary Directors are required to retain shares acquired under share-based incentive awards until the holding requirements are met, save that they are permitted to sell sufficient shares to pay any exercise price and all applicable taxes due in respect of that award
Maximum opportunity	Not applicable
Performance metrics	Not applicable

Notes:

1 The committee considers that the forward-looking targets for the annual bonus are commercially sensitive and has, therefore, chosen not to disclose them in advance. Details of the targets will be set out retrospectively in next year's Remuneration Report. However, the committee considers that the level of performance required for the annual bonus is appropriately stretching.

The bonuses of staff and senior management are restricted to a maximum of between 12% and 60% of base salary depending on seniority, role and market conditions.

2 Performance targets for LTIP awards are set by the committee at the date of grant of the options to ensure that they are appropriately stretching. The committee considers adjusted basic EPS to be a complete and appropriate measure of performance, capturing revenue growth and operating margin. EPS targets are aligned with the Board's strategy.

3 Subject to the achievement of the applicable performance conditions, Executive Directors are eligible to receive payment from any award made prior to the approval and implementation of the Directors' remuneration policy detailed in this report.

4 For both annual bonus and LTIP, while performance conditions will generally remain unchanged once set, the Remuneration Committee has the ability to amend the measures, weightings and targets in exceptional circumstances (such as a major transaction) where the original conditions would cease to operate as intended.

5 The committee retains discretion, consistent with market practice in regard to the operation and administration of the annual bonus and LTIP, including:

– the timing and size of awards (within the overall limits of this policy);

– the determination of performance measures and targets and resultant vesting;

– when dealing with a change of control (e.g. the timing of testing performance conditions) or restructuring of the Group;

– determination of a good/bad leaver based on the rules of each plan and the appropriate treatment chosen; and

– adjustments in certain circumstances, such as rights issues, corporate restructuring events and special dividends.

Directors' Remuneration Report continued

Executive Directors' remuneration continued

Element: recruitment of Executive Directors	
Purpose and link to strategy	Enable recruitment of high-calibre Executive Directors able to contribute to the success of the Group
Operation	Salary will be set to reflect skills and experience of incoming Director and market rate for the role to be undertaken Existing benefits and incentives of the Group to be used with participation on the same basis as existing Directors Payment of relocation expenses where relevant; each element will be detailed in the relevant remuneration report In the event of an internal promotion any commitments made prior to promotion may continue to be honoured when they would otherwise be inconsistent with this policy Discretion may be exercised in exceptional circumstances and existing entitlements with a current employer, such as bonus and share schemes, may be bought out on a like-for-like basis and subject to comparable performance conditions and time vesting requirements where appropriate. Exceptionally, where necessary, this may include making a guaranteed bonus payment in the year of joining
Maximum opportunity	Buy-out awards are subject to the maximum value of any outstanding awards forgone by the recruit
Performance metrics	Based on existing Treatt performance conditions when appropriate

Element: clawback	
Purpose and link to strategy	To ensure Executive Directors do not benefit from errors or misconduct
Operation	Provisions are included in performance-related remuneration to enable clawback of remuneration which has been overpaid due to material misstatement of the Group's accounts, errors made in calculation or a Director's misconduct
Maximum opportunity	Not applicable
Performance metrics	Not applicable

Annual Statement of Remuneration Committee

Non-executive Directors' remuneration

Element: Fees	
Purpose and link to strategy	To recruit high-calibre Non-executive Directors To reward additional responsibility by virtue of position as Chairman of the Board or Chairman of a committee
Operation	Excluding the Chairman, subject to an aggregate limit within the Articles of Association (currently £225,000 as approved by shareholders at the Annual General Meeting in February 2014) Reviewed annually for each Non-executive Director with changes taking effect from 1 October The Chairman's fees are reviewed by the committee and the other Non-executives' fees are reviewed by the Board (excluding the Non-executives) Influenced by the increase in salaries of other Group employees and by personal performance Benchmarked against companies of similar size and complexity at appropriate intervals Additional fees may be paid in respect of increased responsibility or time commitment required by the role or in respect of invoiced consultancy fees, where relevant
Maximum opportunity	Any fee increases are applied in line with the outcome of annual reviews

Illustration of remuneration policy

The graph to the right provides estimates of the potential future reward for each of the Executive Directors based on their current roles, the remuneration policy outlined on pages 71 to 74 and base salaries as at 1 October 2019.

The assumptions used in preparing this chart are as follows:

Minimum

- basic salary, pension or cash in lieu of pension and benefits, no bonus and no vesting of the LTIP;

On target

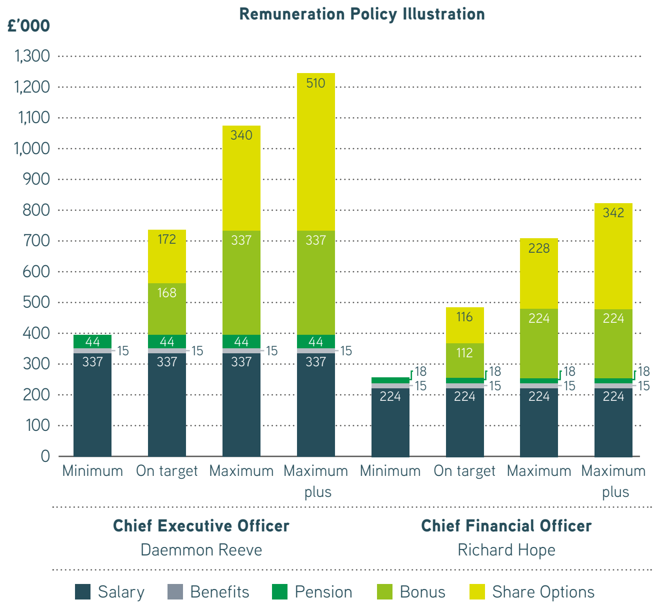
- basic salary, pension or cash in lieu of pension, benefits, and
- a bonus of 50% and an LTIP of 100% of basic salary (with notional vesting at 50%); and

Maximum

- basic salary, pension or cash in lieu of pension, benefits, and
- a bonus of 100% and an LTIP of 100% of basic salary (with notional vesting at 100%).

Maximum plus

- as maximum plus effect of 50% share price growth compared to share price at the date of grant.



Comparison of Directors' remuneration policy with arrangements for employees

This policy sets out the remuneration structure applicable to Directors of the Group. Salary levels and incentive arrangements applicable to other Group employees are determined by reference to local employment conditions for comparative roles.

Budgeted salary increases for Group employees are taken into consideration when determining increases for the Executive Directors.

Employees are provided with a competitive benefits package including healthcare, life assurance and pension. Consistent with Directors, employees are eligible to participate in an annual bonus scheme with conditions linked to the performance of their operating subsidiary and the Group overall. Employee share ownership is encouraged across the Group and participation, particularly in the UK, is strong. The Share Incentive Plan is designed to further encourage employee share ownership. Eligible employees, including Executive Directors, are able to participate in the all-employee share schemes on equal terms. Executive Directors and key employees with the greatest potential to influence achievement of the Group's strategic objectives are provided with share options or long-term incentives designed to encourage strong Group performance.

The Group does not consult with employees in respect of the Executive Directors remuneration policy. However, the committee receives regular updates on salary and bonus levels across the Group and is aware of how the remuneration of Directors compares to employees.

Annual Statement of Remuneration Committee continued

Directors' contracts

Executive Directors

The committee reviews the contractual terms of new and existing Executive Directors to ensure that they reflect best practice and are designed to attract and retain suitable candidates. The committee considers that a rolling contract terminable on 12 months' notice by either party is appropriate.

Summary of Directors' service contracts as at 30 September 2019:

	Date of contract	Notice period
Daemmon Reeve	6 April 2016	12 months
Richard Hope	1 October 2013	12 months

Summary of the key elements of Directors' service contracts:

Provision	Summary
Notice period	12 months by either party
Termination payment	Daemmon Reeve – No provision for payment in lieu of notice Richard Hope – No provision for payment in lieu of notice
Salary	Reviewed annually with effect from 1 October each year
Benefits	Private healthcare, life assurance, permanent health insurance, pension Participation in discretionary incentive arrangements determined by the committee

The Directors' contracts are available for inspection at the Parent Company's registered office during normal business hours.

Future contracts are to provide for remuneration obligations comparable to those set out above taking into consideration role and responsibility.

Non-executive Directors

All Non-executive Directors are subject to the same terms and conditions of appointment which provide for the payment of fees for their services in connection with Board and Board Committee meetings. In their non-executive capacities they do not qualify for participation in any of the Group's bonus, share option or other incentive schemes, and they are not eligible for pension scheme membership.

The terms and conditions of the appointment of Non-executive Directors are available for inspection at the Parent Company's registered office during normal business hours.

Payments for loss of office

In accordance with the 2016 UK Corporate Governance Code, notice periods shall not exceed a maximum of 12 months.

In normal circumstances, it is expected that termination payments for Executive Directors should not exceed current salary and benefits for the notice period. When determining termination payments in the event of early termination, the committee will take into account a variety of factors including length of service, personal and Group performance, the Director's obligation to mitigate their loss, statutory compensation to which a Director may be entitled and legal fees and other payments which may be payable under a settlement agreement.

A Director who has been given notice by the Group for any reason other than on the grounds of injury, disability, redundancy or change of control shall only be eligible to a payment under the bonus scheme at the discretion of the committee, which will take into account the circumstances leading to the notice.

Directors have no entitlement to performance-related share-based incentives, the unvested portion of which will generally lapse following termination of employment. However, in certain circumstances, such as injury, disability or redundancy, share options, which shall be pro-rated by reference to the proportion of the performance period completed and subject to performance conditions, may be exercised within six months of termination. Where termination is for any other reason, share options may only be exercised at the discretion of, and to the extent permitted by the committee, acting fairly and reasonably.

External appointments

Whilst neither of the Executive Directors currently serve as Non-executive Directors on the boards of other companies, it is recognised that such appointments would provide an opportunity to gain broader experience outside of Treatt which would benefit the Group. In the event that the Directors are offered such positions and providing that they are not likely to lead to a conflict of interest or significant constraints on time, Executive Directors may, with the prior approval of the Board, accept Non-executive appointments and retain the fees received.

Shareholder views

The Remuneration Committee engaged pro-actively with the Group's major shareholders in respect of the committee's first remuneration policy in 2013 and changes to the Executive Directors' base salaries in 2017. The views of these shareholders were taken into consideration in adopting the share retention policy, clawback and the two-year holding period for LTIPs. The committee will also consult with major shareholders prior to any further material changes to the remuneration policy which might be necessary in the future.

Implementation report

Membership and meetings

Membership of the Remuneration Committee was refreshed during the year following the appointments of Yetunde Hofmann and Lynne Weedall to the Board. As a result, Tim Jones and Richard Illek stepped down from the committee and Yetunde Hofmann and Lynne Weedall were appointed. Current membership is, therefore, David Johnston (Chair), Jeff Iliffe, Yetunde Hofmann and Lynne Weedall. All members of the Remuneration Committee are considered independent. As noted on page 60, it is intended that David Johnston will retire from the committee on 20 May 2020, when he will have served nine years on the Board and will therefore no longer be regarded as independent, and Lynne Weedall will succeed him.

The committee met six times during the course of the year.

Role and responsibilities

The committee operates under terms of reference, which are reviewed annually and are available on the Group's website. The main responsibilities of the Remuneration Committee are to:

- set the remuneration policy for all Executive Directors, the Chairman and Non-executive Directors including, where appropriate, bonuses, share-based incentive schemes and post-retirement benefits;
- determine the remuneration packages for the Executive Directors, the Chairman and senior management, which includes the Company Secretary;
- approve the design of, and determine targets for, any performance-related incentive schemes operated by the Group and approve the total annual payments made under such schemes; and
- review the design of all share incentive plans requiring approval by the Board and shareholders. For any such plans, the committee shall determine each year, taking into account the recommendations of the CEO as appropriate, whether awards will be made and, if so, the amount of such awards to the Executive Directors, senior management and other key members of staff, and any performance targets to be used.

Activities since the last report

- approval of the 2019 Directors' Remuneration Report;
- agreement of the bonuses payable for the 2019 financial year;
- grant of options to Executive Directors, senior management and other key members of staff under the Treatt LTIP and the setting of performance conditions;
- receive an update from the Global Head of HR on the Group remuneration policy;
- reviewing salary levels for the Executive Directors and Chairman and agreement of salary and fee increases for the 2020 financial year;
- determination of the salary increases of Group senior managers for the 2020 financial year;
- consideration of the award of free and matching shares to UK employees under the Share Incentive Plan and equivalent awards of restricted stock units to US employees under the Long-Term Incentive Plan;
- reviewing the quality of the advice received from FIT Remuneration Consultants and whether it was objective and independent;
- discussing the new remuneration requirements of the 2018 Corporate Governance Code and The Companies (Miscellaneous Reporting) Regulations 2018;
- reviewing Executive Directors' shareholdings against the requirements of the Share Retention Policy;
- reviewing the terms of reference of the Remuneration Committee; and
- reviewing the performance of the Remuneration Committee.

External advisors

During the year the committee continued to engage the services of FIT Remuneration Consultants LLP, who were appointed in the latter stages of 2017 following a selection process undertaken by the Chairman of the Remuneration Committee. FIT Remuneration Consultants are a founder member of the Remuneration Consultants' Group and adhere to its Code of Conduct and do not provide any other services to Treatt. Fees totalling £24,800 have been paid for their services during the year for the provision of advice to the committee on various aspect of remuneration within the FTSE SmallCap sector. The committee has reviewed the quality of the advice provided and whether it properly addressed the issues under consideration and is satisfied that the advice received during the year was objective and independent.

Effectiveness of the Committee

The effectiveness of the committee was considered as part of the external evaluation of the Board and its committees, detailed on pages 61 and 62 and the evaluation report for the Remuneration Committee was reviewed. The committee received positive feedback in respect of the level of debate taking place and engagement of an external remuneration consultant to help provide guidance and support in terms of industry and peer benchmarking, regulatory changes and best practice.

Annual Statement of Remuneration Committee continued

Effectiveness of the Committee continued

Implementation of policy in 2020

Element of remuneration policy	Implementation of policy for 2020
Base salaries	Daemmon Reeve – £336,600 (FY2019: £330,000) Richard Hope – £224,400 (FY2019: £220,000) Represents a 2% increase, in line with the basic annual increase for UK employees
Benefits	Unchanged from FY2019. Private Healthcare (including Family Cover for Daemmon Reeve); Life Assurance; Permanent Health Insurance; Car Allowance; All-employee share schemes
Pensions	Unchanged from FY2019 Daemmon Reeve – 15% of salary (as a former member of the Defined Benefit plan) Richard Hope – 9% of salary Contributions are paid as cash and reduced for the impact of Employers' NICs, giving actual contribution rates of 13.2% and 7.9% of salary respectively
Annual bonus	Operation is unchanged from FY2019 Maximum is 100% of base salary for Executive Directors FY2020 targets are based on Group profit before tax and exceptionals before tax and are calibrated by reference to the performance of the Group in FY2019 Bonuses are paid in cash after finalisation of the Group's results for FY2020 The committee considers that the forward-looking targets for the annual bonus are commercially sensitive and has, therefore, chosen not to disclose them in advance. Details of the targets will be set out retrospectively in next year's Remuneration Report
Long Term Incentive Plan (LTIP)	Operation is unchanged from FY2019 Annual LTIP award to Executive Directors of shares worth 100% of base salary (calculated using share prices at the time of award) FY2020 awards will be subject to performance conditions measured over three financial years to FY2022 The performance condition will again be based on growth in adjusted basic earnings per share measured from FY2019 as the base point and with a performance range as follows: – Threshold (25% vests) – average 3.0% p.a. growth – Maximum (100% vests) – average 10% p.a. growth After performance vesting at three years, LTIP awards are subject to a further two-year holding period
Share retention policy	Daemmon Reeve – 200% of basic salary Richard Hope – 150% of basic salary At 30 September 2019 Daemmon Reeve and Richard Hope held 531% and 655% of basic salary respectively
Clawback	Applies to all performance-related elements of Executive Directors' remuneration
Chairman and Non-executive Directors' fees	The base fee for the Chairman and Non-executive Directors for FY2020 has been increased by 2% in line with the general rate of base pay increase for UK employees. Accordingly, fee levels for the Chairman and Non-executive Directors in FY2020 are as follows: Chairman – £102,000 (FY2019: £100,000) For all other Non-executive Directors: Base fee – £42,025 (FY2019: £41,200) Audit Committee Chair fee – £7,880 (FY2019: £7,725) Remuneration Committee Chair fee – £5,253 (FY2019: £5,150) Senior Independent Director – £2,627 (FY2019: £2,575)

The following section of this report provides details of the implementation of the policy for the year ended 30 September 2019.

Directors' remuneration (audited)

The tables below report a single figure for total remuneration for each individual Executive and Non-executive Director respectively.

Executive Directors:

	Daemmon Reeve		Richard Hope	
	2019 £'000	2018 £'000	2019 £'000	2018 £'000
Salary	330	305	220	202
Taxable benefits[1]	16	16	16	15
Annual bonus	206	282	138	187
Share options vesting in the financial year[2]	906	1,114	460	650
Pension[3]	43	40	17	16
	1,501	1,757	851	1,070

1 Taxable benefits provided to Executive Directors relate to private medical insurance and car allowances.

2 Options which vested in 2019 included those granted in 2015 and in the case of Daemmon Reeve also in 2013, during which times share price growth has been 159% and 189% respectively. The maximum average adjusted EPS growth required was 10% per annum, and the actual EPS growth achieved was 18.1% and 17.9% per annum respectively. Details of share options which vested in the year are shown on page 81. The percentage of the value which vested during the year which related to share price growth was 51% for Daemmon Reeve and 60% for Richard Hope.

3 Pension contributions relate to pay in lieu of pension after deduction of employers' NI.

Details relating to the annual bonus are as follows:

The annual bonus for Executive Directors is calculated based on the annual growth in profit before tax, adjusted for exceptional and other items at the discretion of the Remuneration Committee.

The annual bonus is capped at a maximum of 100% of annual basic salary. The annual bonus, as a percentage of the maximum achievable, was as follows:

	2019	2018
Daemmon Reeve	62.5%	92.5%
Richard Hope	62.5%	92.5%

Bonus payments range from 5% of salary at threshold level, being 96% of prior year's Group profit before tax and exceptionals, rising incrementally to a maximum of 100% of salary where Group profit before tax and exceptionals is 110% or more of prior year. The proportion of fixed and variable pay, exclusive of pension, benefits and share options, is shown below for the Executive Directors:

	Basic salary		Annual bonus	
	2019	2018	2019	2018
Daemmon Reeve	62%	52%	38%	48%
Richard Hope	62%	52%	38%	48%

Non-executive Directors:

	Fees	
	2019 £'000	2018 £'000
Tim Jones	100	80
Anita Haines	13[1]	40
Yetunde Hofmann	22[2]	–
Jeff Iliffe	49	48
Richard Illek	41	40
David Johnston	49	48
Lynne Weedall	22[2]	–
	296	256

1 Anita Haines retired on 25 January 2019.

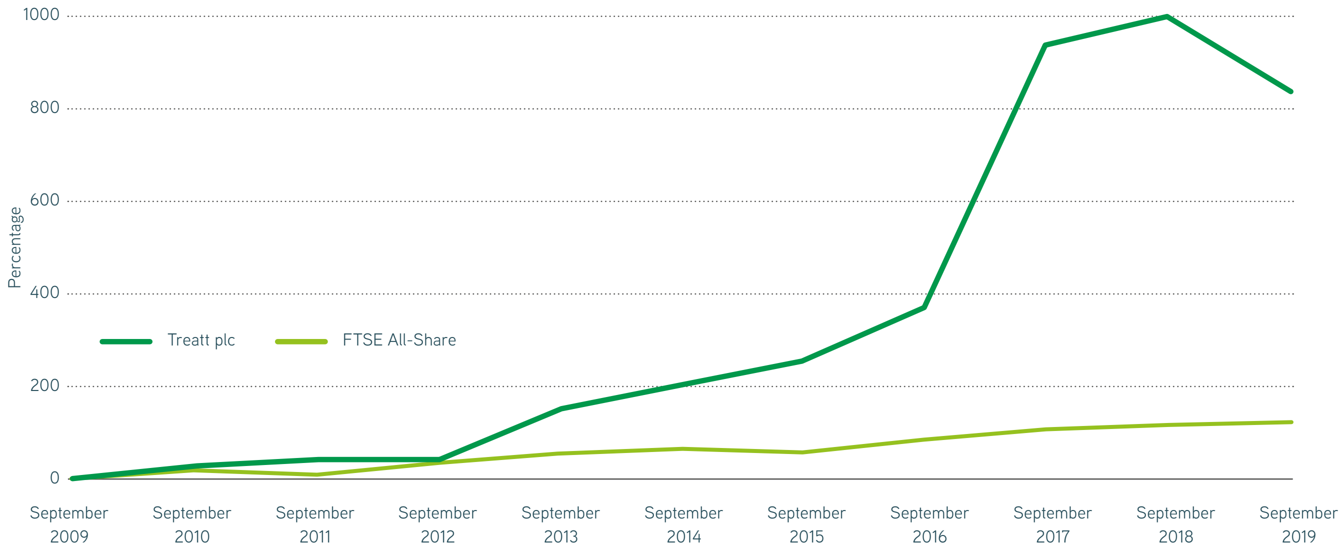
2 Yetunde Hofmann was appointed on 20 March 2019 and Lynne Weedall on 6 April 2019.

Annual Statement of Remuneration Committee continued

Performance graph

This performance graph shows Treatt plc's performance, measured by total shareholder return, compared with that of the FTSE All-Share Index, which has been selected by the Board as being the most appropriate measure against which to benchmark its performance.

Total shareholder return 2009–2019



CEO remuneration

The following table provides historical data on remuneration in respect of the Director(s) performing the role of Chief Executive Officer for each of the years covered by the performance graph:

	2019	2018	2017	2016	2015	2014	2013	2012[2]	2011	2010
Total remuneration (£'000)	1,501	1,757	603	580	470	436	405	274	447	281
Annual bonus as % of maximum[1]	62.5%	92.5%	100%	88%	92%	95%	85%	11%[3]	104%	47%
Share options vesting as % of maximum	100%	100%	N/A[5]	N/A[5]	100%[4]	100%[4]	100%[4]	100%[4]	100%[4]	100%[4]

1 Prior to 2012 there was no cap on the payment of annual bonuses to Executive Directors, therefore the percentage of annual salary is shown by way of comparative.

2 The CEO Remuneration for 2012 is the combined remuneration paid to the current and preceding CEO for the periods when they held that post.

3 The 2012 annual bonus only related to two months of the financial year.

4 All share options vested in full as they were all-employee share options which were not subject to performance conditions.

5 There were no options which vested during the year.

The percentage change in remuneration for 2019 of the Director undertaking the role of CEO, compared to employees as a whole was as follows:

	Salaries	Bonus
CEO	8.2%	-27.0%
Employees[1]	6.0%	-8.7%[2]

1 The employees used for comparison are those UK and US employees who, for the salary comparison, were employed for the whole of the 2019 financial year.

2 Employee bonuses are based on a combination of Group performance and the performance of the entity they are employed by. US all staff bonuses were 2.5% of salary (2018: 11.5%) and UK all staff bonuses were 10.5% of salary (2018: 3.5%).

Relative importance of spend on pay

Wages and salaries are the most significant overhead cost in the Group. The following table sets out, in a manner prescribed by the regulations, the relative importance of employee remuneration, as compared to distributions to shareholders and other significant uses of profit, the most significant of which, taxation, has therefore been selected:

	2019 £'000	2018 £'000	Movement
Total remuneration[1]	14,739	13,496	+9%
Dividends[2]	3,080	2,876	+7%
Current tax[3]	1,494	2,999	-50%

1 Total remuneration includes wages, salaries and pension costs as disclosed in note 6.

2 Dividends paid in the financial year as disclosed in note 12.

3 Current tax charge in respect of the financial year as disclosed in note 10. The reduction in current tax resulted from significant first year allowances ('bonus depreciation') on capital expenditure related to the US expansion project.

Directors' interests (audited)

The Directors who held office at 30 September 2019 had the following interests in the shares of the Parent Company:

	Shares held outright or vested		Unvested share options with performance conditions		Unvested all-employee share options	
	2019	2018	2019	2018	2019	2018
Executive Directors						
Daemmon Reeve	434,632	302,910	252,318	389,446	4,986	13,043
Richard Hope	357,566	291,615	166,740	223,760	4,718	7,377
Non-executive Directors						
Tim Jones	137,508	120,751	–	–	–	–
Anita Haines	50,680	50,680	–	–	–	–
Richard Illek	64,000	64,000	–	–	–	–

Between 1 October 2019 and 21 November 2019, the latest date practicable to obtain the information prior to publication of this document, there were no changes in the Directors' interests.

The table below shows the value of Executive Directors' interests in shares as at 30 September 2019 as a percentage of their base salary:

	Value of shares held[1] outright or vested		Base salary[2]		Value of interest as % of base salary		
	2019 £'000	2018 £'000	2019 £'000	2018 £'000	2019 %	2018 %	Target % of base salary
Daemmon Reeve	1,765	1,463	330	305	535%	480%	200%
Richard Hope	1,452	1,409	220	202	660%	697%	150%

1 Based upon a share price of £4.06 as at 30 September 2019.

2 Base salary is the average basic gross pay for the corresponding year.

Annual Statement of Remuneration Committee continued

Share option schemes (audited)

The following share options were granted to Executive Directors during the financial year:

	Scheme	Basis	Date of grant	Share price at date of grant	Face value £'000[3]	Min performance award	Performance end date
Daemmon Reeve	SAYE 2019[2]	All-staff	10 July 2019	£4.51	22	N/A	N/A
	LTIP 2018[1]	Executive	14 Dec 18	£4.10	330	25%	30/9/21
Richard Hope	SAYE 2019[2]	All-staff	10 July 2019	£4.51	7	N/A	N/A
	LTIP 2018[1]	Executive	14 Dec 18	£4.10	220	25%	30/9/21

1 Executive LTIPs are granted at Nil cost, subject to performance conditions.

2 SAYE (Save As You Earn) share options are offered to UK employees (subject to tax exempt limits) at a discount of 20% of the average share price for the three days preceding the date of grant and are exercisable after three years.

3 Face value is calculated based upon share price at date of grant as shown above.

The performance conditions for Executive LTIP options are as follows:

Average annual growth in adjusted basic earnings per share for the three financial years ending on the performance end date shown above. The options shall vest on a sliding scale: 25% where average annual growth equals or exceeds 3%, increasing to 100% where average annual growth equals or exceeds 10%. If the average annual growth in adjusted EPS is less than 3%, the options will lapse.

The share options of the Directors in office during the year are as set out below:

	Exercise dates	Exercise price	At 1 Oct 2018	Granted during the year	Exercised during the year	Expired during the year	At 30 Sept 2019
Daemmon Reeve	Sept 2019 – Feb 2020	138.0p	13,043	–	(13,043)	–	–
	Sept 2022 – Feb 2023	361.0p	–	4,986	–	–	4,986
	Dec 2018 – Dec 2023	147.2p	41,575	–	(41,575)	–	–
	Dec 2018 – Dec 2025	Nil	175,708	–	(175,708)	–	–
	Dec 2019 – Dec 2026	Nil	104,354	–	–	–	104,354
	Dec 2020 – Dec 2027	Nil	67,477	–	–	–	67,477
	Dec 2021 – Dec 2028	Nil	–	80,487	–	–	80,487
			402,157	85,473	(230,326)	–	257,304
Richard Hope	Sept 2019 – Feb 2020	138.0p	4,304	–	(4,304)	–	–
	Sept 2020 – Feb 2021	413.0p	1,481	–	–	–	1,481
	Sept 2021 – Feb 2022	373.0p	1,592	–	–	–	1,592
	Sept 2022 – Feb 2023	361.0p	–	1,645	–	–	1,645
	Dec 2018 – Dec 2025	Nil	110,678	–	(110,678)	–	–
	Dec 2019 – Dec 2026	Nil	68,392	–	–	–	68,392
	Dec 2020 – Dec 2027	Nil	44,690	–	–	–	44,690
	Dec 2021 – Dec 2028	Nil	–	53,658	–	–	53,658
			231,137	55,303	(114,982)	–	171,458

The aggregate amount of gains made by the Directors on the exercise of share options in the year was £1,366,000 (2018: £1,764,000).

There have been no further changes in the interests of the Directors to subscribe for or acquire shares between 1 October 2019 and 21 November 2019, the latest date practicable to obtain the information prior to publication of this document.

The market price of the shares at 30 September 2019 was £4.06 and the range during the financial year was £3.88 to £4.93. All market price figures are derived from the Daily Official List of the London Stock Exchange.

Pensions (audited)

The Chief Executive Officer is a deferred member of the R C Treatt & Co Limited Pension & Assurance Scheme following its closure to future accruals on 31 December 2012. The plan was a non-contributory, H M Revenue & Customs approved, defined benefit occupational pension scheme.

The pension entitlement is as follows:

	Normal retirement date	Accrued total pension 2019 £	Accrued total pension 2018 £
Daemmon Reeve	24 Sept 2036	14,078	13,740

The transfer values have been calculated on the basis of actuarial advice in accordance with Statutory Instrument 2013 No 1981 – The Large and Medium-Sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013. Further details of the scheme are included in note 29.

In addition, contributions to defined money purchase pension plans were made as follows:

	2019 £'000	2018 £'000
Daemmon Reeve	43	40
Richard Hope	17	16

Pension contributions include pay in lieu of pension after deduction of employers' NI in order to be cost neutral to the Group.

Statement of voting

At the Annual General Meeting held on 25 January 2019, the votes cast in respect of the resolution to approve the Directors' Remuneration Report, was as follows:

Directors' Remuneration Report	For 94.71%	Against 5.29%	Votes withheld 1,004,073

The Remuneration Policy was approved at the Annual General Meeting held on 26 January 2018 and the votes cast in respect of the resolution to approve the Remuneration Policy, was as follows:

Remuneration Policy	For 99.83%	Against 0.17%	Votes withheld 149,909

Audit notes

In accordance with Section 421 of the Companies Act 2006 and the Regulations, where indicated, certain information contained within the Implementation Section of this report has been audited. The remaining sections are not subject to audit.

This report was approved by the Board and signed on its behalf on 25 November 2019.

Anita Guernari

Group Legal Counsel and Company Secretary

Directors' Report

Financial statements

The Directors present their report and the audited financial statements for the Group for the year ended 30 September 2019.

Results and dividends

The results of the Group for the year are set out on page 94. Profit before tax for the year excluding exceptional items and discontinued operations was £13,300,000 (2018: £12,642,000).

The Directors recommend a final dividend of 3.80p (2018: 3.50p) per ordinary share. This, when taken with the interim dividend of 1.70p (2018: 1.60p) per share paid on 15 August 2019, gives a total dividend of 5.50p (2018: 5.10p) per share for the year ended 30 September 2019.

Corporate governance

The Corporate Governance Statement on pages 58 to 63 forms part of this Directors' Report.

Directors

The Directors of the Parent Company are shown on pages 56 and 57.

Appointment and replacement of Directors

The appointment and replacement of Directors is governed by the Parent Company's Articles of Association, the UK Corporate Governance Code, the Companies Act and related legislation. Directors can be appointed by the Parent Company by ordinary resolution at a general meeting or by the Board. If a Director is appointed by the Board, such Director will hold office until the next Annual General Meeting and shall then be eligible, subject to Board recommendation, for election at that meeting. All Directors will offer themselves for re-election annually; further details are provided in the Corporate Governance Statement on pages 58 to 63.

Details of the Executive Directors' contracts and notice periods are given in the Directors' Remuneration Report on page 76. The Executive Directors' contracts are terminable by the Group giving the required notice period of twelve months. The appointments of the Non-executive Directors can be terminated by the Parent Company giving three months' notice at any time. The Parent Company can remove a Director from office, either by passing an ordinary resolution of which special notice has been given or by notice being given by all the other Directors.

Directors' interests in shares

The interests of Directors in shares of the Parent Company are shown in the Directors' Remuneration Report on page 81.

Substantial shareholders

In accordance with Rule 5 of the Disclosure and Transparency Rules of the Financial Conduct Authority, the Parent Company has been notified of the following holdings of 3% or more of the voting rights at 21 November 2019 (the latest practicable reporting date prior to publication of this document).

	Number	Issued %	Voting %
Blackrock Inc	5,758,927	9.57%	9.73%
Discretionary Unit Fund Managers	4,250,000	7.06%	7.18%
Canaccord Genuity Group Inc	3,177,804	5.28%	5.37%
Hargreaves Lansdown Plc	2,426,033	4.03%	4.10%
Premier Miton plc	2,372,266	3.94%	4.01%
Danske Bank	1,993,379	3.31%	3.37%

Conflicts of interest

No Director had an interest in any contract of significance during the year. The Group has procedures in place for managing conflicts of interest. If a Director becomes aware that they, or a connected party, have an interest in an existing or proposed transaction with the Group, they should notify the Company Secretary as soon as possible. Directors have a continuing obligation to update any changes to conflicts and the Board formally reviews them annually. Details of other directorships held by members of the Board can be found in the Director profiles on pages 56 and 57.

Directors' and Officers' liability insurance

The Group maintains Directors' and Officers' liability insurance which is reviewed annually. The insurance covers the Directors and officers of the Parent Company and its subsidiaries against the costs of defending themselves in civil proceedings taken against them in their capacity as a director or officer of a group company and in respect of damages or civil fines or penalties resulting from the unsuccessful defence of any proceedings.

Research and development

Product innovation and research and development are a critical part of the Group's strategy and business model as outlined in the Strategic Report on pages 14 and 15. The main research and development activity undertaken by the Group is in the area of new product development.

The Group utilises its strong technical capabilities to develop innovative products that provide solutions for customers, particularly in the food and beverage sectors. In this way, it seeks to make itself indispensable to a key group of major global multi-national companies. In the opinion of the Directors, continuity of investment in this area is essential for the maintenance of the Group's market position and for future growth.

Financial and internal control

The Board confirms that a process for the on-going identification, evaluation and management of significant risks faced by the Group has been in place throughout the year and to the date of approval of this report, which complies with the 'Guidance on Risk Management, Internal Control and Related Financial and Business Reporting' issued by the FRC in September 2014.

The Board has overall responsibility for ensuring that the Group maintains a system of internal controls and for reviewing its effectiveness. This covers financial, operational and compliance controls including those in relation to financial reporting processes (including the preparation of consolidated accounts). In addition to monitoring reports received via the Executive Directors, the Board considers whether the control systems are appropriate and consults with those responsible for environmental, insurance, legal and health and safety compliance as appropriate. There were no significant internal control issues identified during the year.

Such a system can only provide reasonable, but not absolute, assurance against material misstatement or loss. The key procedures that the Directors have established to provide effective internal controls are as follows:

Financial reporting

A detailed formal budgeting process for all Group businesses culminates in an annual Group budget and a five-year forecast which is approved by the Board. Results for the Group and its main constituent businesses are reported monthly against the budget to the Board and revised forecasts for the year are prepared throughout the year. The Group uses a standardised consolidation system for the preparation of the Group's monthly management accounts, half year and annual consolidated financial statements, which is subject to review by senior management throughout the consolidation process.

The Board monitors the integrity of all financial announcements released by the Group, ensuring that, among other things, appropriate accounting standards and policies are applied consistently, that all material information is presented and that the disclosures are accurate.

Financial and accounting principles

Financial controls and accounting policies are set by the Board so as to meet appropriate levels of effective financial control. Compliance with accounting policies is reviewed where necessary as part of the external audit.

Information technology

The Group operates on a common centrally managed computer platform. This provides common reporting and control systems and the ability to manage and interrogate businesses remotely. However, there are associated risks with having the entire Group IT systems on a common platform, such as IT security, access rights and business continuity. These risks are mitigated by an on-going focus on IT security through a process of continuous investment in IT facilities.

Capital investment

The Group has clearly defined guidelines for capital expenditure. These include annual budgets, appraisal and review procedures, and levels of authority. Post-investment appraisals are performed for major investments. In respect of the two major capital investment projects – the US expansion and the UK relocation – please see the Financial Review on pages 28 to 34.

Risk management

Details of the risk management system and the principal risks associated with the Group's activities are given in the Strategic Report on pages 8 to 53.

Financial instruments

Information on the Group's financial risk management objectives and policies and on the exposure of the Group to relevant risks in respect of financial instruments is set out in note 32 of the financial statements.

Going concern and viability statement

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Strategic Report on pages 36 to 41. Information on the principal risks and uncertainties and how they are managed can also be found in the Strategic Report.

In accordance with the 2016 UK Corporate Governance Code, the Directors have assessed the prospects of the Group over a longer period than the twelve months required by the Code.

The Board conducted this review for a period of five years, which is consistent with the longer-term financial plans for the Group.

In determining the longer-term viability of the Group, the Directors considered the Group's business activities, together with the factors likely to affect its future development, performance and position. The review also included the financial position of the Group, its cash flows, and available sources of finance.

The process adopted to assess the viability of the Group involved the modelling of a series of theoretical 'stress test' scenarios linked to the Group's principal risks, which are shown on pages 36 to 41. Consideration was also given to the impact of mitigating risk, as well as their interdependencies. In assessing the Group's prospects and resilience, the Directors have done so with reference to its current financial position and prospects, its recent and historical financial performance and forecasts, the Board's risk appetite and the principal risks and mitigating factors described on pages 36 to 41.

The key factors considered by the Directors within the five-year review were:

- the implications of the challenging economic environment, the likely potential outcome of Brexit and future uncertainties on the Group's revenues and profits;
- the implications of fluctuating prices of the Group's strategic raw materials;
- the implication of the ongoing site relocation in the UK;
- the impact of the competitive environment within which the Group's businesses operate;
- the potential actions that could be taken in the event that revenues are worse than expected, to ensure that operating profit and cash flows are protected;
- the Group's cash balances;
- the Group's access to short, medium and long-term borrowing facilities to meet day-to-day working capital requirements and capital expenditure on the UK relocation project, as well as long-term investment requirements;
- the Group's ability to access equity as a source of finance; and
- a sensitivity analysis which involves flexing a number of the main assumptions underlying the five-year plan and considering the implications of a number of risks materialising during a short-term period.

Directors' Report continued

Going concern and viability statement continued

The current expectations regarding the costs of the UK site relocation and the funding of the project is set out in the Financial Review on page 33. Given the level of cash balances and debt finance available to the Group to fund the investment, as at the date of this report, the Directors have not identified any material uncertainties which would affect the Group and Parent Company's ability to continue as a going concern for a period of twelve months from the date of this Annual Report. Furthermore, the Directors have a reasonable expectation that the Group has adequate resources available to it to continue in business and meet its liabilities over the five-year period of their viability assessment.

Accordingly, the Directors continue to adopt the going concern basis in preparing these financial statements.

Health and safety

The Group's disclosures on health and safety have been included within the Working Responsibly section on page 44.

Greenhouse gas emissions

The Group's disclosures on greenhouse gas emissions have been included within the Working Responsibly section on page 47.

Employees

The Group's disclosures on employees have been included within the Working Responsibly section on page 44.

Structure of share capital

The Parent Company's share capital comprises 60,170,670 ordinary shares with a nominal value of 2 pence each. All of the Parent Company's issued ordinary shares are fully paid up and rank equally in all respects. The rights attached to them, in addition to those conferred on their holders by law, are set out in the Articles, a copy of which can be found on the Treatt website or obtained on request from the Company Secretary.

Details of the issued ordinary share capital of the Parent Company and movements during the year are set out in note 25 of the financial statements. During the year the Parent Company issued 700,000 shares to the Employee Benefit Trust (2018: 1,070,000).

Restrictions on transfer of securities

There are no restrictions on the transfer of ordinary shares or on the exercise of voting rights attached to them, except (i) where the Parent Company has exercised its right to suspend their voting rights or to prohibit their transfer following the omission of their holder or any person interested in them to provide the Parent Company with information requested by it in accordance with Part 22 of the Companies Act 2006 or (ii) where their holder is precluded from exercising voting rights by the Financial Conduct Authority's Listing Rules or the City Code on Takeovers and Mergers.

Rights and obligations of ordinary shares

On a show of hands at a general meeting, every holder of ordinary shares present in person or by proxy and entitled to vote shall have one vote and on a poll, every member present in person or by proxy and entitled to vote shall have one vote for every ordinary share held. Subject to the relevant statutory provisions and the Articles, holders of ordinary shares are entitled to a dividend where declared or paid out of profits available for such purposes.

Articles of association

The powers of the Directors are conferred on them by UK legislation and the Articles of Association. Changes to the Articles must be approved by shareholders passing a special resolution at a general meeting.

Powers of the Directors and purchase of own shares

At the forthcoming Annual General Meeting in 2020, the Parent Company will be seeking a renewal of the shareholder authority for the Directors to purchase up to 10% of the Parent Company's ordinary shares, although at present the Directors have no plans to buy back any shares. It is, however, considered prudent to have the authority in place so that the Parent Company is able to act at short notice if circumstances warrant.

A resolution will also be proposed at the 2020 Annual General Meeting to renew the power given to the Directors to issue new shares up to an aggregate nominal value in line with the latest Investment Association guidelines, of which an aggregate nominal value of up to 10% of the existing issued share capital can be issued by disapplying pre-emption rights, of which 5% can only be issued for the purposes of financing an acquisition or other capital investment.

It is the Directors' intention to seek renewal of these general authorities annually. Further information is set out in the notice of Annual General Meeting on page 142.

Treatt Employee Benefit Trust (the 'EBT')

The EBT holds ordinary shares in the Parent Company in order to meet obligations under the Group's employee share option schemes. No shares (2018: nil) were purchased by the EBT during the year ended 30 September 2019. During the year 700,000 (2018: 1,070,000) shares were issued under a block listing application. The trustees have waived their voting rights and their right to receive dividends in respect of the ordinary shares held by the EBT.

Treatt SIP Trustees Limited (the 'SIP Trust')

The SIP Trust holds ordinary shares in the Parent Company in order to meet the obligations under the Group's Share Incentive Plan in the UK which was approved at the 2014 Annual General Meeting. During the year nil (2018: 230,000) shares were issued under a block listing application. Voting rights are waived on all shares held in the SIP Trust whether or not allocated to participants under the rules of the Share Incentive Plan. Dividends are only waived in respect of shares which have not been allocated to participants; dividends received by the SIP Trust on behalf of participants are reinvested in shares at market value on the date of reinvestment.

Annual General Meeting and restrictions on voting deadlines

The Annual General Meeting will be held at Treatt plc, Northern Way, Bury St. Edmunds, Suffolk, IP32 6NL on 31 January 2020. The Notice of Meeting and explanatory notes are given on pages 142 to 147. The notice of any general meeting will specify the deadline for exercising voting rights and appointing a proxy or proxies to vote in relation to resolutions to be proposed at a general meeting. The number of proxy votes for, against or withheld in respect of each resolution are announced and published on the Treatt website after the meeting.

Auditors

RSM UK Audit LLP has indicated its willingness to continue in office. On the recommendation of the Audit Committee, as set out on page 69, resolutions are to be proposed at the Annual General Meeting for the re-appointment of RSM UK Audit LLP as auditors of Treatt plc and its subsidiaries, and to authorise the Board to fix their remuneration. The remuneration of the auditors for the year ended 30 September 2019 is disclosed in note 5 of the financial statements.

Statement of Directors' responsibilities

The Directors are responsible for preparing the Directors' Report, the Strategic Report, the Directors' Remuneration Report, the Corporate Governance Statement and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare Group and Parent Company financial statements for each financial year. The Directors are required under the listing rules of the Financial Conduct Authority to prepare Group financial statements in accordance with International Financial Reporting Standards ('IFRS') as adopted by the European Union ('EU') and have elected under company law to prepare the Parent Company financial statements in accordance with IFRS as adopted by the EU.

The Group financial statements are required by law, and IFRS adopted by the EU, to present fairly the financial position of the Group and the Parent Company and the financial performance of the Group. The Companies Act 2006 provides, in relation to such financial statements, that references in the relevant part of that Act to financial statements giving a true and fair view are references to their achieving a fair presentation.

Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and the Parent Company and of the profit of the Group for that period.

In preparing each of the Group and Parent Company financial statements, the Directors are required to:

a. select suitable accounting policies and then apply them consistently;

b. make judgements and estimates that are reasonable and prudent;

c. state whether they have been prepared in accordance with IFRSs adopted by the EU; and

d. prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and the Parent Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group's and the Parent Company's transactions and disclose with reasonable accuracy at any time the financial position of the Group and the Parent Company and enable them to ensure that the financial statements and the Directors' Remuneration Report comply with the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the Group and the Parent Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Treatt plc website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Directors' statement pursuant to the Disclosure and Transparency Rules

Each of the Directors, whose names and functions are listed in the Directors' Report, confirms that, to the best of their knowledge:

a. the financial statements, prepared in accordance with IFRS as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit of the Group and Parent Company and the undertakings included in the consolidation taken as a whole;

b. the Strategic Report contained in the Annual Report includes a fair review of the development and performance of the business and the position of the Group and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face; and

c. consider the Annual Report, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy.

Statement as to disclosure of information to auditors

The Directors who were in office on the date of approval of these financial statements have confirmed, as far as they are aware, that there is no relevant audit information of which the auditors are unaware. Each of the Directors have confirmed that they have taken all the steps that they ought to have taken as Directors in order to make themselves aware of any relevant audit information and to establish that it has been communicated to the auditors.

This report was approved by the Board on 25 November 2019.

Signed on behalf of the Board.

Anita Guernari
Group Legal Counsel and Company Secretary

Financial Statements

1 These sections do not form part of the financial statements.

Independent Auditor's Report

to the members of Treatt Plc

OPINION

We have audited the financial statements of Treatt plc (the 'Parent Company') and its subsidiaries (the 'Group') for the year ended 30 September 2019 which comprise the Group income statement, Group statement of comprehensive income, Group and Parent Company statements of changes in equity, Group and Parent Company balance sheets, Group and Parent Company statements of cash flows, Group reconciliation of net cash flow to movement in net debt and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the Parent Company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 30 September 2019 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the Parent Company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

BASIS FOR OPINION

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Group and Parent Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

CONCLUSIONS RELATING TO PRINCIPAL RISKS, GOING CONCERN AND VIABILITY STATEMENT

We have nothing to report in respect of the following information in the Annual Report, in relation to which the ISAs (UK) require us to report to you whether we have anything material to add or draw attention to:

- the disclosures in the Annual Report set out on pages 36 to 41 that describe the principal risks and explain how they are being managed or mitigated;
- the Directors' confirmation set out on page 36 in the Annual Report that they have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity;
- the Directors' statement set out on pages 85 and 86 in the financial statements about whether the Directors considered it appropriate to adopt the going concern basis of accounting in preparing the financial statements and the Directors' identification of any material uncertainties to the Group and the Parent Company's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements;
- whether the Directors' statement relating to going concern required under the Listing Rules in accordance with Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit; or
- the Directors' explanation set out on pages 85 and 86 in the Annual Report as to how they have assessed the prospects of the Group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the Group and Parent Company financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the Group and Parent Company financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Group key audit matters

Inventory provisions against obsolete and slow-moving stock to write down to the net recoverable amount as per the policy on page 105 and charge as note 5 – we reconfirmed our understanding of the basis for determining provisions against obsolete, slow moving and defective inventory and against items where expected net realisable value is lower than cost. We considered whether the estimation process continued to be appropriate and consistently applied. We tested a sample of inventory provisions, considered their appropriateness and reviewed post year-end transactions to assess whether these confirmed the provisions made and their completeness. We also reviewed the outcome of prior year provisions to confirm the effectiveness of the estimation process followed by management. No significant matters were noted from our testing.

Parent Company key audit matters

We did not identify any key audit matters for the Parent Company for the year.

OUR APPLICATION OF MATERIALITY

When establishing our overall audit strategy, we set certain thresholds which help us to determine the nature, timing and extent of our audit procedures. When evaluating whether the effects of misstatements, both individually and on the financial statements as a whole, could reasonably influence the economic decisions of the users we take into account the qualitative nature and the size of the misstatements. During planning materiality for the Group financial statements as a whole was calculated as £660,000, which was not significantly changed during the course of our audit. Materiality for the Parent Company financial statements as a whole was calculated as £400,000, which was not significantly changed during the course of our audit. We agreed with the Audit Committee that we would report to them all unadjusted differences in excess of £30,000, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

AN OVERVIEW OF THE SCOPE OF OUR AUDIT

Our group audit approach focused on the Parent Company, Treatt Development Company Limited and the two key trading subsidiaries, one in the UK, R.C. Treatt & Co Limited, and one in the US, Treatt USA Inc. The UK entities are subject to local statutory audits completed to the Group reporting timetable. The US entity is not subject to local statutory audit and has been subject to full scope audit. The US entity audit was undertaken by the same team as the UK statutory audits.

These audits covered 100% of revenue from continuing operations, 100% of profit before tax from continuing operations and 99% of total assets.

In addition, the results for the year from discontinued operations was subject to analytical procedures with specific testing on appropriateness of the carrying value of the assets classified as held for resale.

OTHER INFORMATION

The other information comprises the information included in the Annual Report set out on pages 1 to 89, other than the financial statements and our auditor's report thereon. The Directors are responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon. In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

In this context, we also have nothing to report in regard to our responsibility to specifically address the following items in the other information and to report as uncorrected material misstatements of the other information where we conclude that those items meet the following conditions:

- Fair, balanced and understandable set out on page 87 – the statement by the Directors that they consider the Annual Report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's performance, business model and strategy, is materially inconsistent with our knowledge obtained in the audit; or
- Audit Committee reporting set out on page 66 to 69 – the section describing the work of the Audit Committee does not appropriately address matters communicated by us to the audit committee; or
- Directors' statement of compliance with the UK Corporate Governance Code set out on page 58 – the parts of the Directors' statement required under the Listing Rules relating to the Company's compliance with the UK Corporate Governance Code containing provisions specified for review by the auditor in accordance with Listing Rule 9.8.10R(2) do not properly disclose a departure from a relevant provision of the UK Corporate Governance Code.

Independent Auditor's Report continued

to the members of Treatt Plc

OPINIONS ON OTHER MATTERS PRESCRIBED BY THE COMPANIES ACT 2006

In our opinion, the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006.

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the Directors' Report have been prepared in accordance with applicable legal requirements.

MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

In the light of the knowledge and understanding of the Group and the Parent Company and their environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the Directors' Report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the Parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Parent Company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

RESPONSIBILITIES OF DIRECTORS

As explained more fully in the Directors' responsibilities statement set out on page 87, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Group's and the Parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or the Parent Company or to cease operations, or have no realistic alternative but to do so.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of our audit, we will consider the susceptibility of the Group and Parent Company to fraud and other irregularities, taking account of the business and control environment established and maintained by the Directors, as well as the nature of transactions, assets and liabilities recorded in the accounting records. Owing to the inherent limitations of an audit, there is an unavoidable risk that some material misstatements of the financial statements may not be detected, even though the audit is properly planned and performed in accordance with the ISAs. However, the principal responsibility for ensuring that the financial statements are free from material misstatement, whether caused by fraud or error, rests with management who should not rely on the audit to discharge those functions.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: http://www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

OTHER MATTERS WHICH WE ARE REQUIRED TO ADDRESS

We were appointed by the Board of Directors of the Parent Company in February 1988 to audit the financial statements for the year ending 30 September 1988 and subsequent financial periods. The period of total uninterrupted engagement is 32 years, covering the years ending 30 September 1988 to 30 September 2019.

The non-audit services prohibited by the FRC's Ethical Standard were not provided to the Group or the Parent Company and we remain independent of the Group and the Parent Company in conducting our audit.

Our audit opinion is consistent with the additional report to the audit committee.

USE OF OUR REPORT

This report is made solely to the Parent Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Parent Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Parent Company and the Parent Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Neil Stephenson (Senior Statutory Auditor)

For and on behalf of RSM UK Audit LLP, Statutory Auditor

Chartered Accountants
Abbotsgate House
Hollow Road
Bury St. Edmunds
Suffolk
IP32 7FA

25 November 2019

Group Income Statement

for the year ended 30 September 2019

	Notes	2019 £'000	2018 £'000
CONTINUING OPERATIONS			
Revenue	4	**112,717**	112,163
Cost of sales		**(84,060)**	(84,407)
Gross profit		**28,657**	27,756
Administrative expenses		**(15,158)**	(13,812)
Operating profit [1]	5	**13,499**	13,944
Other losses	7	**–**	(734)
Finance income	8	**141**	36
Finance costs	8	**(340)**	(604)
Profit before taxation and exceptional items		**13,300**	12,642
Exceptional items	9	**(755)**	(1,105)
Profit before taxation		**12,545**	11,537
Taxation	10	**(2,673)**	(2,284)
Profit for the year from continuing operations		**9,872**	9,253
DISCONTINUED OPERATIONS			
(Loss)/profit for the year from discontinued operations	11	**(1,084)**	2,976
Profit for the year attributable to owners of the Parent Company		**8,788**	12,229
Earnings per share			
From continuing and discontinued operations:			
Basic	13	**14.86p**	21.55p
Diluted	13	**14.66p**	20.99p
Adjusted basic[2,3]	13	**17.38p**	19.07p
Adjusted diluted[2,3]	13	**17.15p**	18.58p
From continuing operations:			
Basic	13	**16.69p**	16.30p
Diluted	13	**16.47p**	15.88p
Adjusted basic[2]	13	**17.82p**	18.02p
Adjusted diluted[2]	13	**17.58p**	17.56p

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

2 All adjusted measures exclude exceptional items, and in the case of earnings per share the related tax effect, details of which are given in note 9.

3 Excludes the 2019 impairment and 2018 gain on disposal of subsidiaries as detailed in note 11.

Notes 1 to 33 form part of these financial statements.

Group Statement of Comprehensive Income

for the year ended 30 September 2019

	Notes	2019 £'000	2018 £'000
Profit for the year attributable to owners of the Parent Company		**8,788**	12,229
Items that may be reclassified subsequently to profit or loss:			
Currency translation differences on foreign operations		**2,123**	912
Current tax on foreign currency translation differences	10	**(72)**	(24)
Fair value movement on cash flow hedges	24	**93**	(70)
Deferred tax on fair value movement	10	**(16)**	(27)
		2,128	791
Items that will not be reclassified subsequently to profit or loss:			
Actuarial (loss)/gain on defined benefit pension scheme	29	**(4,230)**	2,505
Deferred tax on actuarial gain or loss	10	**719**	(426)
		(3,511)	2,079
Other comprehensive (expense)/income for the year		**(1,383)**	2,870
Total comprehensive income for the year attributable to owners of the Parent Company		**7,405**	15,099

Notes 1 to 33 form part of these financial statements.

Group and Parent Company Statements of Changes in Equity

for the year ended 30 September 2019

Group	Notes	Share capital £'000	Share premium account £'000	Own shares in share trusts £'000	Hedging reserve £'000	Foreign exchange reserve £'000	Retained earnings £'000	Total equity £'000
1 October 2017		1,058	2,757	(175)	(80)	2,627	40,291	46,478
Profit for the year		–	–	–	–	–	12,229	12,229
Other comprehensive income:								
Exchange differences		–	–	–	–	912	–	912
Fair value movement on cash flow hedges	24	–	–	–	(70)	–	–	(70)
Actuarial gain on defined benefit pension scheme	29	–	–	–	–	–	2,505	2,505
Transfer between reserves		–	–	–	227	–	(227)	–
Taxation relating to items above	10	–	–	–	(27)	(24)	(426)	(477)
Total comprehensive income		–	–	–	130	888	14,081	15,099
Transactions with owners:								
Dividends	12	–	–	–	–	–	(2,876)	(2,876)
Share-based payments	28	–	–	–	–	–	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	25	131	20,727	(26)	–	–	–	20,832
Taxation relating to items recognised directly in equity	10	–	–	–	–	–	457	457
Total transactions with owners		131	20,727	141	–	–	(951)	20,048
1 October 2018		1,189	23,484	(34)	50	3,515	53,421	81,625
Profit for the year		–	–	–	–	–	8,788	**8,788**
Other comprehensive income:								
Exchange differences		–	–	–	–	2,123	–	**2,123**
Fair value movement on cash flow hedges	24	–	–	–	93	–	–	**93**
Actuarial loss on defined benefit pension scheme	29	–	–	–	–	–	(4,230)	**(4,230)**
Taxation relating to items above	10	–	–	–	(16)	(72)	719	**631**
Total comprehensive income		–	–	–	77	2,051	5,277	**7,405**
Transactions with owners:								
Dividends	12	–	–	–	–	–	(3,080)	**(3,080)**
Share-based payments	28	–	–	–	–	–	653	**653**
Movement in own shares in share trusts		–	–	33	–	–	–	**33**
Gain on release of shares in share trusts		–	–	–	–	–	506	**506**
Issue of share capital	25	14	–	(14)	–	–	–	**–**
Taxation relating to items recognised directly in equity	10	–	–	–	–	–	(35)	**(35)**
Total transactions with owners		**14**	**–**	**19**	**–**	**–**	**(1,956)**	**(1,923)**
30 September 2019		**1,203**	**23,484**	**(15)**	**127**	**5,566**	**56,742**	**87,107**

Notes 1 to 33 form part of these financial statements.

Parent Company	Notes	Share capital £'000	Share premium account £'000	Own shares in share trusts £'000	Retained earnings £'000	Total equity £'000
1 October 2017		1,058	2,757	(175)	7,191	10,831
Profit for the year		–	–	–	7,945	7,945
Total comprehensive income		–	–	–	7,945	7,945
Transactions with owners:						
Dividends	12	–	–	–	(2,876)	(2,876)
Movement in own shares in share trusts		–	–	167	–	167
Capital contribution to subsidiary undertakings	16	–	–	–	1,049	1,049
Gain on release of shares in share trusts		–	–	–	419	419
Issue of share capital	25	131	20,727	(26)	–	20,832
Total transactions with owners		131	20,727	141	(1,408)	19,591
1 October 2018		1,189	23,484	(34)	13,728	38,367
Profit for the year		–	–	–	2,903	**2,903**
Total comprehensive income		–	–	–	2,903	**2,903**
Transactions with owners:						
Dividends	12	–	–	–	(3,080)	**(3,080)**
Movement in own shares in share trusts		–	–	33	–	**33**
Capital contribution to subsidiary undertakings	16	–	–	–	653	**653**
Gain on release of shares in share trusts		–	–	–	506	**506**
Issue of share capital	25	14	–	(14)	–	**–**
Total transactions with owners		**14**	**–**	**19**	**(1,921)**	**(1,888)**
30 September 2019		**1,203**	**23,484**	**(15)**	**14,710**	**39,382**

Notes 1 to 33 form part of these financial statements.

Group and Parent Company Balance Sheets

as at 30 September 2019

Registered Number: 01568937

		Group		Parent Company	
	Notes	2019 £'000	2018 £'000	2019 £'000	2018 £'000
ASSETS					
Non-current assets					
Intangible assets	14	**845**	752	**–**	–
Property, plant and equipment	15	**29,485**	20,038	**–**	–
Investments in subsidiaries	16	**–**	–	**7,663**	7,010
Deferred tax assets	17	**1,400**	1,073	**–**	–
		31,730	21,863	**7,663**	7,010
Current assets					
Inventories	18	**36,799**	39,642	**–**	–
Trade and other receivables	19	**23,020**	28,829	**86**	2,507
Current tax assets		**455**	29	**–**	–
Cash and bank balances	20	**37,187**	32,304	**33,210**	31,647
Assets classified as held for sale	11	**697**	1,598	**–**	–
		98,158	102,402	**33,296**	34,154
Total assets		**129,888**	124,265	**40,959**	41,164
LIABILITIES					
Current liabilities					
Borrowings	21	**(16,860)**	(19,244)	**–**	–
Provisions	22	**(261)**	(58)	**–**	–
Trade and other payables	23	**(11,331)**	(15,298)	**(1,577)**	(2,797)
Current tax liabilities		**(124)**	(760)	**–**	–
Derivative financial instruments	24	**(315)**	(401)	**–**	–
Liabilities classified as held for sale	11	**(14)**	(20)	**–**	–
		(28,905)	(35,781)	**(1,577)**	(2,797)
Net current assets		**69,253**	66,621	**31,719**	31,357
Non-current liabilities					
Borrowings	21	**(4,369)**	(3,001)	**–**	–
Post-employment benefits	29	**(7,788)**	(3,457)	**–**	–
Deferred tax liabilities	17	**(1,719)**	(401)	**–**	–
		(13,876)	(6,859)	**–**	–
Total liabilities		**(42,781)**	(42,640)	**(1,577)**	(2,797)
Net assets		**87,107**	81,625	**39,382**	38,367
EQUITY					
Share capital	25	**1,203**	1,189	**1,203**	1,189
Share premium account	26	**23,484**	23,484	**23,484**	23,484
Own shares in share trusts		**(15)**	(34)	**(15)**	(34)
Hedging reserve		**127**	50	**–**	–
Foreign exchange reserve		**5,566**	3,515	**–**	–
Retained earnings		**56,742**	53,421	**14,710**	13,728
Total equity attributable to owners of the Parent Company		**87,107**	81,625	**39,382**	38,367

Notes 1 to 33 form part of these financial statements.

The Parent Company reported a profit for the year of £2,903,000 (2018: £7,945,000).

The financial statements were approved by the Board of Directors and authorised for issue on 25 November 2019 and were signed on its behalf by:

Tim Jones
Chairman

Richard Hope
Chief Financial Officer

Group and Parent Company Statements of Cash Flows

for the year ended 30 September 2019

	Notes	Group 2019 £'000	Group 2018 £'000	Parent Company 2019 £'000	Parent Company 2018 £'000
Cash flow from operating activities					
Profit before taxation including discontinued activities		**11,477**	14,555	**2,865**	7,901
Adjusted for:					
Depreciation of property, plant and equipment		**1,559**	1,519	**–**	–
Amortisation of intangible assets	14	**90**	124	**–**	–
Profit on disposal of intangible assets		**–**	(2)	**–**	–
Impairment of discontinued operations	11	**825**	–	**–**	–
Gain on disposal of subsidiary	27	**–**	(2,382)	**–**	(7,229)
Net finance costs/(income)	8	**199**	610	**(286)**	(27)
Share-based payments	28	**637**	1,040	**–**	–
Increase in fair value of derivatives		**7**	638	**–**	–
Increase in post-employment benefit obligations		**101**	141	**–**	–
Operating cash flow before movements in working capital		**14,895**	16,243	**2,579**	645
Movements in working capital:					
Decrease/(increase) in inventories		**3,970**	(1,174)	**–**	–
Decrease/(increase) in receivables		**5,293**	(9,906)	**1,387**	(951)
(Decrease)/increase in payables		**(3,614)**	(1,582)	**(1,219)**	2,309
Cash generated from operations		**20,544**	3,581	**2,747**	2,003
Taxation (paid)/received		**(2,208)**	(2,978)	**36**	43
Net cash from operating activities		**18,336**	603	**2,783**	2,046
Cash flow from investing activities					
Disposal of subsidiaries	27	**1,033**	8,746	**1,033**	8,441
Purchase of property, plant and equipment		**(10,392)**	(6,190)	**–**	–
Purchase of intangible assets	14	**(178)**	(389)	**–**	–
Interest received	8	**141**	36	**290**	30
		(9,396)	2,203	**1,323**	8,471
Cash flow from financing activities					
Increase/(repayment) in bank loans		**1,874**	(7,594)	**–**	–
Settlement of financial derivatives	32	**–**	(227)	**–**	–
Interest paid	8	**(340)**	(646)	**(3)**	(3)
Dividends paid	12	**(3,080)**	(2,876)	**(3,080)**	(2,876)
Proceeds on issue of shares	25,26	**14**	20,833	**14**	20,833
Net sale of own shares by share trusts		**526**	586	**526**	586
		(1,006)	10,076	**(2,543)**	18,540
Net increase in cash and cash equivalents		**7,934**	12,882	**1,563**	29,057
Effect of foreign exchange rates		**82**	(102)	**–**	–
Movement in cash and cash equivalents in the year		**8,016**	12,780	**1,563**	29,057
Cash and cash equivalents at beginning of year		**13,060**	280	**31,647**	2,590
Cash and cash equivalents at end of year		**21,076**	13,060	**33,210**	31,647
Cash and cash equivalents comprise:					
Cash and bank balances	20	**37,187**	32,304	**33,210**	31,647
Bank borrowings	21	**(16,111)**	(19,244)	**–**	–
		21,076	13,060	**33,210**	31,647

Notes 1 to 33 form part of these financial statements.

Group Reconciliation of Net Cash Flow to Movement in Net Cash

for the year ended 30 September 2019

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

Notes 1 to 33 form part of these financial statements.

Analysis of movement in net cash during the year:

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

	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 (debt)/cash at end of year	(10,225)	20,476	(192)	10,059

Notes 1 to 33 form part of these financial statements.

Notes to the Financial Statements

for the year ended 30 September 2019

1. GENERAL INFORMATION

Treatt plc ('the Parent Company') is a public limited Company incorporated in the United Kingdom and domiciled in England and Wales. The Parent Company's shares are traded on the London Stock Exchange. The address of the registered office is included within the Parent Company Information section on page 148.

2. ADOPTION OF NEW AND REVISED ACCOUNTING STANDARDS

New and amended accounting standards

The consolidated entity has adopted all of the new or amended accounting standards and interpretations issued by the International Accounting Standards Board ('IASB') that are mandatory for the current reporting period. Any new or amended accounting standards or interpretations that are not yet mandatory have not been early adopted.

The following new accounting standards and interpretations are relevant to the consolidated entity:

- IFRS 9, 'Financial instruments'
- IFRS 15, 'Revenue from contracts with customers'

The Group has adopted IFRS 9, 'Financial Instruments' and IFRS 15, 'Revenue from Contracts with Customers' with effect from 1 October 2018, as explained in more detail below. These standards are mandatory for financial periods beginning on or after 1 January 2018 and, therefore, relevant to the Group for the first time for the financial year ended 30 September 2019. The adoption of these accounting standards has not had a material effect on the Group consolidated financial statements.

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 adopted IFRS 15 for its year ended 30 September 2019, with a date of initial application of 1 October 2018. The Group has adopted the modified retrospective approach without restatement of comparatives and has applied the practical expedient available to not adjust the promised amount of consideration due in respect of sales which are considered to contain a significant financing component, on the basis that receipts will be expected within a year or less.

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

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

The adoption of IFRS 15 has had no impact on the financial statements of Treatt plc; the primary statements and performance metrics as reported under IFRS 15 remain consistent with reporting under previous accounting standards.

IFRS 9 Financial instruments

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

(1) Classification and measurement

(i) Financial assets

All recognised financial assets that are within the scope of IFRS 9 are required to be subsequently measured at amortised cost or fair value on the basis of the entity's business model for managing the financial assets and the contractual cashflow characteristics of the financial assets.

Financial assets falling under the business model of 'held to collect' are recognised at amortised cost, those under 'held to sell' are recognised at fair value with changes through the profit or loss and those under 'held to collect and sell' are recognised at fair value with changes through the other comprehensive income. The Group reclassify debt instruments only when its business model for managing those assets changes. Accounting for the Group's financial assets is unchanged from the prior year and changes are in disclosure only.

(ii) Financial liabilities

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

Notes to the Financial Statements continued

for the year ended 30 September 2019

2. ADOPTION OF NEW AND REVISED ACCOUNTING STANDARDS CONTINUED

(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. Under IFRS 9 the Group has assessed recoverability on a forward-looking basis and applied the simplified approach for measuring the loss allowance for trade receivables which do not contain a significant financing component.

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. Note 19 'Trade and other receivables', provides further details on the measurement of the loss allowance and provision recognised at the balance sheet date.

(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. IFRS 9 also allows an entity to designate only the spot element of a derivative as the hedged item and amortise the time-value over the life of the hedge.

The Group has updated its hedge accounting policy and 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.

Accounting standards in issue but not yet effective

With the exception of IFRS 16, 'Leases' which is outlined in more detail below, there are no IFRSs or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the Group or Parent Company.

IFRS 16 Leases

IFRS 16, 'Leases' was issued in January 2016 to replace IAS 17, 'Leases' and has been endorsed by the EU. The standard is effective for periods beginning on or after 1 January 2019 and will be adopted for the Group financial statements for the period ending 30 September 2020. The objective of IFRS 16, 'Leases' is to report information that both faithfully represents lease transactions and allows the reader to assess the amount, timing and uncertainty of cash flows arising from leases. It introduces a single lessee accounting model where a lessee is required to recognise a right-of-use asset which is capitalised and depreciated over the estimated lease term together with a lease liability representing its obligation to make lease payments which will reduce over time with an interest charge recognised in the income statement.

The Group intends to adopt the full retrospective approach, including restatement of comparative information. Upon restatement of the financial statements, the Group will recognise on the balance sheet a right of use asset in the region of £205,000 and a lease liability in the region of £220,000, the difference will be shown in an adjustment to brought forward retained earnings. The lease liability will also impact the Group's net cash or debt position.

3. SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies which have been used in the preparation of these financial statements are set out below.

Accounting convention

The Group is required to prepare its annual consolidated financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted for use by the European Union. The Parent Company has also prepared its own financial statements in accordance with IFRS as adopted by the European Union. The financial statements have also been prepared under the historical cost convention (unless a fair value basis is required by IFRS) and are in accordance with the Companies Act 2006 applicable for companies reporting under IFRS.

The Parent Company has taken advantage of the exemption under Section 408 of the Companies Act 2006 and has not presented its own income statement in these financial statements.

The financial statements are prepared in Sterling which is the functional currency of the Parent Company and Group.

Basis of consolidation

The Group accounts consolidate the accounts of Treatt plc and all of its subsidiaries (entities controlled by the Parent Company) made up to 30 September each year. Control is achieved where the Parent Company has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities. All intra-group transactions, balances and unrealised gains on transactions between Group companies are eliminated on consolidation. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

Going concern

The Directors have, at the time of approving the financial statements, a reasonable expectation that the Parent Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the financial statements. Further detail is contained in the Directors' Report on pages 84 to 87.

Presentation of financial statements

The primary statements within the financial information contained in this document have been presented in accordance with IAS 1, 'Presentation of Financial Statements'.

Investments in subsidiaries

Investments in subsidiaries in the Parent Company balance sheet are stated at cost, less any provision for impairment.

Business combinations

The acquisition of subsidiaries is accounted for using the purchase method. The cost of the acquisition is measured at the aggregate fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3, 'Business combinations' are recognised at their fair value at the acquisition date.

Revenue recognition

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'.

Effect of changes in foreign exchange rates

Transactions in currencies other than Pounds Sterling are recorded at the rate of exchange at the date of transaction. Assets and liabilities in foreign currencies are translated into Pounds Sterling in the balance sheet at the year-end rate.

Income and expense items of the Group's overseas subsidiaries are translated into Pounds Sterling at the average rate for the year. Their balance sheets are translated at the rate ruling at the balance sheet date.

Exchange differences which arise from the translation of the opening net assets and results of foreign subsidiaries and from translating the income statement at an average rate are taken to reserves. Under IAS 21, 'The Effects of Changes in Foreign Exchange Rates', these cumulative translation differences which are recognised in the Statement of Comprehensive Income are separately accounted for within reserves and are transferred from equity to the income statement in the event of the disposal of a foreign operation. All other exchange differences are taken to the income statement.

Research and development expenditure

Expenditure on research activities is recognised as an expense and charged to the income statement in the period in which it is incurred.

Expenditure arising from any specific development is recognised as an asset only if all of the following conditions are met:

- An asset is created that can be identified;
- It is probable that the asset created will generate future economic benefits; and
- The development cost of the asset can be measured reliably.

Development expenditure meeting these conditions is amortised on a straight-line basis over its useful life. Where these conditions for capitalising development expenditure have not been met, the related expenditure is recognised as an expense in the period in which it is incurred.

Leases

Rentals receivable under operating leases are recognised in the income statement as and when they fall due.

Rentals payable under operating leases, where substantially all of the benefit and risks of ownership remain with the lessor, are charged against profits on a straight-line basis over the term of the lease.

Notes to the Financial Statements continued

for the year ended 30 September 2019

3. SIGNIFICANT ACCOUNTING POLICIES CONTINUED

Taxation

The tax expense represents the sum of the tax currently payable and deferred tax attributable to current profits.

Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated by using tax rates that have been enacted or substantively enacted by the balance sheet date. Where the Group and/or Parent Company have a net current tax asset in one legal jurisdiction, a liability in another, and consequently have no legal right of set off, then these assets and liabilities will be shown separately on the balance sheet as required by IAS 12, 'Income Taxes'.

Current tax is charged or credited in the income statement, except when it relates to items credited or charged directly to equity, in which case the current tax is also dealt with in equity.

Deferred tax

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction which affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. As the Group is in fact in a position to control the timing of the reversal of the temporary differences arising from its investments in subsidiaries it is not required to recognise a deferred tax liability. In view of the variety of ways in which these temporary differences may reverse, and the complexity of the tax laws, it is not possible to accurately compute the temporary differences arising from such investments.

Deferred tax is recognised in respect of the retained earnings of overseas subsidiaries and associates only to the extent that, at the balance sheet date, dividends have been accrued as receivable or a binding agreement to distribute past earnings in future has been entered into by the subsidiary or associate.

Deferred tax is measured at the average tax rates that are expected to apply in the periods in which timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date. Where the Group and/or Parent Company have a net deferred tax asset in one legal jurisdiction, a liability in another, and consequently have no legal right of set off, then these assets and liabilities will be shown separately on the balance sheet as required by IAS 12, 'Income Taxes'.

Deferred tax is charged or credited in the income statement, except when it relates to items credited or charged directly to equity, in which case deferred tax is also dealt with in equity.

Exceptional items

The Group has elected to classify certain items as exceptional and present them separately on the face of the income statement. Exceptional items are classified as those which are separately identified by virtue of their size, nature or expected frequency, to allow a better understanding of the underlying performance in the period.

Post balance sheet events and dividends

IAS 10, 'Events after the Balance Sheet Date' requires that final dividends proposed after the balance sheet date should not be recognised as a liability at that balance sheet date, as the liability does not represent a present obligation as defined by IAS 37, 'Provisions, Contingent Liabilities and Contingent Assets'. Consequently, final dividends are only recognised as a liability once formally approved at the Annual General Meeting and interim dividends are not recognised until paid.

Cash flow

The Statement of Cash Flows explains the movement in cash and cash equivalents and short-term borrowings.

Property, plant and equipment

Property, plant and equipment is stated at cost less depreciation.

Depreciation is provided on all property, plant and equipment, except freehold and long leasehold land, using the straight-line basis to write off the cost of the asset, less estimated residual value, as follows:

- Buildings: 50 years
- Plant and machinery: 4–10 years
- Fixtures, fittings and equipment: 4–10 years
- Lab equipment 5 years

Intangible assets

Intangible assets comprise licences for software, the lease premium on buildings and capitalised development costs. Amortisation (which is included within administrative expenses) is provided on all intangible assets, using the straight-line basis to write off the cost of the asset, less estimated residual value, as follows:

- Software licences: 4 years
- Lease premium: 85 years
- Development costs: 7 years

Research costs are expensed as incurred. Expenditure on development activities is capitalised if, and only if, the products are technically and commercially feasible and the Group intends to complete the intangible asset to use or sell; it is probable the intangible asset will generate future economic benefit; the expenditure attributable to the intangible asset during its development can be measured reliably; and the Group has the technical ability and sufficient resources to complete development.

Impairment of property, plant and equipment and intangible assets

Provision will be made should any impairment in the value of properties or other non-current assets occur.

The carrying amounts of the Group's non-current assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the need for an impairment is assessed by comparison of the carrying value of the asset against the higher of net realisable value and value in use. The value in use is estimated using a discounted cash flow model.

Assets held for sale

Non-current assets, or disposal groups comprising assets and liabilities, are classified as held for sale if it is highly probable that they will be recovered primarily through sale rather than through continuing use.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is based on raw material costs plus attributable overheads.

Net realisable value is based on estimated selling price less further costs expected to be incurred through to disposal. Provision is made for obsolete, slow-moving and defective items.

Onerous contracts

Provisions for onerous contracts are recognised when the expected benefits from a contract are lower than the unavoidable costs of meeting the contract's obligations.

Financial instruments

Financial assets and financial liabilities are recognised on the Group and/or Parent Company's balance sheet when the Group and/or Parent Company have become a party to the contractual provisions of the instrument.

Financial assets

Financial assets held by the Group are classified in accordance with IFRS 9. Financial assets at the reporting date comprise trade receivables, loans, other receivables and cash and cash equivalents. The classification depends on both the nature of contractual cash flows due from the instrument, and the business model in which it is expected the cash flows will be realised.

Trade receivables

The Group generally holds trade receivables with the objective to collect the contractual cash flows, and so it measures them initially at fair value then subsequently at amortised cost using the effective interest method, less an allowance for expected credit losses (ECLs). The Group may sell trade receivables from some customers before the due date; these sales are true sales of debt that result in derecognition. Any receivables from such customers not sold at the reporting date are classified as 'held to collect and sell' and held at fair value with changes recognised in other comprehensive income. The Group has adopted the simplified approach to impairment as permitted under IFRS 9 and recognises the lifetime ECLs for trade receivables at initial recognition. ECLs have been estimated using the Group's historical credit loss experience and the current and anticipated future market conditions at the reporting date.

Notes to the Financial Statements continued

for the year ended 30 September 2019

3. SIGNIFICANT ACCOUNTING POLICIES CONTINUED

Loans receivable

All loans receivable are initially recognised at fair value. After initial recognition, interest-bearing loans are measured at amortised cost less any impairment loss recognised to reflect irrecoverable amounts. An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the loan's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition. Impairment losses are reversed in subsequent periods when an increase in the loan's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to the restriction that the carrying amount of the loan at the date the impairment is reversed shall not exceed what the amortised cost would have been had the impairment not been recognised.

Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks, and other short-term highly liquid investments with original maturities of three months or less. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purposes of the consolidated cash flow statement. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

Financial liabilities and equity instruments

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into, and in accordance with IFRS 9. An equity instrument is any contract that evidences a residual interest in the assets of the Group or Parent Company after deducting all of its liabilities.

Interest-bearing loans and borrowings

All loans and borrowings are initially recognised at the fair value of the consideration received, net of issue costs. After initial recognition, interest-bearing loans and borrowings are measured at amortised cost using the effective interest method. All borrowing costs are recognised in the income statement in the period in which they are incurred.

Trade payables

Trade payables are not interest-bearing and are stated at their nominal value.

Equity instruments

Equity instruments issued by the Parent Company are recorded at the proceeds received, net of direct issue costs.

Derivative financial instruments

The Group's activities expose it to both the financial risks of changes in foreign currency exchange rates and interest rates. From time to time the Group uses foreign exchange forward and option contracts and interest rate swap contracts to hedge some of these exposures. The Group does not use derivative financial instruments for speculative purposes. The use of financial derivatives is governed by the Group's policies approved by the Board. Further information on currency and interest rate management is provided in note 32, 'Financial Instruments'.

Hedge accounting

At the inception of the hedge relationship, the Group documents the relationship between the hedging instrument and the hedged item, along with the Group's risk management objectives and strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Group prospectively documents whether the hedging instrument that is used in a hedging relationship is effective in offsetting changes in fair values or cash flows of the hedged item. The Group has continued to designate the fair value of the entire derivative as the hedging instrument consistent with the treatment previously adopted under IAS 39.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated, exercised, or no longer qualifies for hedge accounting. If a hedging transaction is no longer expected to occur, the net cumulative gain or loss that was recognised in equity is reclassified to profit and loss as a reclassification adjustment through reserves. Changes in the fair value of derivative financial instruments that do not qualify for hedge accounting are recognised in the income statement as they arise.

Cash flow hedges

Changes in the fair value of derivative financial instruments that are designated and effective as cash flow hedging instruments are recognised directly in equity. The ineffective portion is recognised immediately in the income statement. If the cash flow hedge of a firm commitment or forecasted transaction results in the recognition of an asset or a liability, then, at the time the asset or liability is recognised, the associated gains or losses on the derivative that had been previously recognised in equity are included in the initial measurement of the asset or liability. For transactions that do not result in the recognition of an asset or a liability, amounts deferred in equity are recognised in the income statement in the same period in which the hedged item affects net profit or loss.

Pension costs

One of the Group's UK subsidiaries, R C Treatt & Co Limited, operates a defined benefit scheme through an independently administered pension scheme.

For defined benefit retirement plans, the cost of providing benefits is determined using the projected unit credit method, with full actuarial valuations being carried out every three years and updated at each balance sheet date. The post-employment benefits obligation recognised in the balance sheet represents the present value of the defined benefit pension obligations adjusted for unrecognised past service cost, and as reduced by the fair value of scheme assets. Any asset resulting from this calculation is limited to past service costs, plus the present value of available refunds and reductions in future contributions to the scheme.

In accordance with IAS 19, 'Employee Benefits', the asset or liability in the defined benefit pension scheme is recognised as an asset or liability of the Group under non-current assets or liabilities under the heading 'Post-employment benefits'. The deferred tax in respect of 'Post-employment benefits' is netted against other deferred tax assets and liabilities relating to the same jurisdiction (see taxation accounting policy) and included in the deferred taxation asset or liability shown under non-current assets or liabilities.

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

The Group also operates a number of defined contribution pension schemes. The contributions for these schemes are charged to the income statement in the year in which they become payable.

Share options, the employee benefit trust and share incentive plan trust

Shares held by the Treatt Employee Benefit Trust ('EBT') for the purpose of fulfilling obligations in respect of various employee share plans are deducted from equity in the Group and Parent Company balance sheets. The treatment in the Parent Company balance sheet reflects the substance of the entity's control of the trust.

The Group has an HMRC-approved share incentive plan ('SIP'). The Group also has a wholly-owned UK Trust, Treatt SIP Trustees Limited ('Trust'), to whom shares are issued at nominal value for the purpose of fulfilling obligations under the SIP. The treatment of the Trust in the Group and Parent financial statements is consistent with that of the EBT as explained above.

Share-based payments

IFRS 2, 'Share-based Payments', requires that an expense for equity instruments granted be recognised in the financial statements based on their fair value at the date of grant. The Group has adopted the Black-Scholes model for the purposes of computing the fair value of options under IFRS. The fair value excludes the effect of non market-based vesting conditions. This expense, which is in relation to share option schemes for staff in the UK and US, is recognised on a straight-line basis over the vesting period of the scheme, based on the Group's estimate of the number of equity instruments that will eventually vest.

At each balance sheet date, the Group revises its estimate of the number of equity instruments expected to vest as a result of the effect of non market-based vesting conditions. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to the retained earnings reserve.

Savings-related share options granted to employees are treated as cancelled when employees cease to contribute to the scheme. Cancelled options are accounted for as an acceleration of vesting. The unrecognised grant date fair value is recognised in profit or loss in the year that the options are cancelled.

The Group has an HMRC-approved SIP for its UK-based employees under which employees can be awarded Free and Matching Shares. The fair value of shares awarded under the SIP is the market value of those shares at the date of grant, which is then recognised on a straight-line basis over the vesting period.

Where the Parent Company grants options over its shares to employees in subsidiaries, it recognises this as a capital contribution equivalent to the share-based payment charge recognised in the Group Income Statement. In the financial statements of the Parent Company, this capital contribution is recognised as an increase in the cost of investment in subsidiaries, with the corresponding credit being recognised directly in equity.

Notes to the Financial Statements continued

for the year ended 30 September 2019

3. SIGNIFICANT ACCOUNTING POLICIES CONTINUED

Critical accounting estimates, assumptions and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The Group makes estimates and assumptions concerning the future. The resulting accounting estimates and assumptions will, by definition, seldom equal the related actual results. The Group has evaluated the estimates and assumptions that have been made in relation to the carrying amounts of assets and liabilities in these financial statements.

The key accounting judgements and sources of estimation uncertainty with a significant risk of causing a material adjustment to assets and liabilities in the next financial year include the following:

Revenue recognition

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

Pensions

Movements in equity markets, interest rates and life expectancy could materially affect the level of surpluses and deficits in the defined benefit pension scheme. The key assumptions used to value pension assets and liabilities are set out in note 29 'Post-employment benefits'.

Useful economic life and residual value estimates

The Group reviews the useful economic lives and residual values attributed to property, plant and equipment and intangible assets on an on-going basis to ensure they are appropriate. Changes in economic lives or residual values could impact the carrying value and charges to the income statement in future periods.

Provisions

Using the information available at the balance sheet date, the Directors make judgements based on experience on the level of provision required against assets, including inventory and trade receivables, and for liabilities including onerous contracts. Further information received after the balance sheet date may impact the level of provision required.

Share-based payments

In accordance with IFRS 2 'Share-based Payments', share options and other share awards are measured at fair value at the date of grant. The fair value determined is then expensed in the income statement on a straight-line basis over the vesting period, with a corresponding increase in equity. The fair value of the options is measured using the Black-Scholes option pricing model. The valuation of these share-based payments requires several judgements to be made in respect of the number of options that are expected to be exercised. Details of the assumptions made in respect of each of the share-based payment schemes are disclosed in note 28 'Share-based payments'. Changes in these assumptions could lead to changes in the income statement expense in future periods.

Taxation

The Group operates in a number of tax jurisdictions and estimation is required of taxable profit in order to determine the Group's current tax liability. There are transactions and calculations for which the ultimate tax determination can be uncertain. The Group periodically evaluates situations in which applicable tax regulation is subject to interpretation and establishes provisions where appropriate based on amounts expected to be paid to the tax authorities.

Deferred tax assets

Management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies.

Description of the nature and purpose of each reserve within equity

Share premium account

The share premium account represents amounts received in excess of the nominal value of shares on the issue of new shares.

Own shares in share trusts

Own shares in share trusts relate to shares held in the Treatt Employee Benefit Trust (the 'EBT') and Treatt SIP Trustees Limited (the 'SIP Trust'). The shares held in the EBT and SIP Trust are all held to meet options to be exercised by employees, and share awards and tax-approved purchases by employees under the SIP. Dividends on those shares not beneficially held on behalf of employees have been waived.

Hedging reserve

The hedging reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments related to hedged transactions that have not yet occurred.

Foreign exchange reserve

The foreign exchange reserve records the cumulative exchange differences arising from the translation of the financial statements of overseas subsidiaries.

Retained earnings

Retained earnings comprises the Group's cumulative annual profits and losses, actuarial gains and losses on the defined benefit pension scheme and dividend payments, combined with the employee share option reserve which represents the equity component of share-based payment arrangements.

4. SEGMENTAL INFORMATION

Group

Business segments

IFRS 8, 'Operating segments' requires operating segments to be identified on the basis of internal financial information reported to the Chief Operating Decision Maker (CODM). The Group's CODM has been identified as the Board of Directors who are primarily responsible for the allocation of resources to the segments and for assessing their performance. The disclosure in the Group accounts of segmental information is consistent with the information used by the CODM in order to assess the profit performance from the Group's operations.

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

Geographical segments

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

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

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

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

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

Notes to the Financial Statements continued

for the year ended 30 September 2019

5. PROFIT FOR THE YEAR

Profit[1] for the year is stated after charging/(crediting):

Group	2019 £'000 Continuing	2019 £'000 Discontinued	2019 £'000 Total	2018 £'000 Continuing	2018 £'000 Discontinued	2018 £'000 Total
Depreciation of property, plant and equipment	**1,289**	**60**	**1,349**	1,254	56	1,310
Amortisation of intangible assets[2]	**82**	**–**	**82**	113	3	116
Loss on disposal of other intangible assets	**–**	**–**	**–**	31	–	31
Research and development costs	**2,128**	**–**	**2,128**	1,717	–	1,717
Research and development tax credits	**(149)**	**–**	**(149)**	(137)	–	(137)
Operating leases						
– plant & machinery	**6**	**–**	**6**	6	1	7
– land & buildings	**22**	**105**	**127**	22	84	106
Net foreign exchange gain[3]	**(424)**	**–**	**(424)**	(558)	(20)	(578)
Rent (receivable)/payable	**(23)**	**–**	**(23)**	(44)	17	(27)
Cost of inventories recognised as expense[4]	**72,427**	**889**	**73,316**	73,377	5,285	78,662
Write down of inventories recognised as an expense	**516**	**4**	**520**	769	38	807
Shipping costs	**1,960**	**27**	**1,987**	1,755	112	1,867
IT & telephony costs	**737**	**15**	**752**	628	15	643
Insurance costs	**634**	**25**	**659**	581	66	647
Energy & utility costs	**595**	**19**	**614**	527	38	565

1 Figures above refer to operating profit and do not include net finance costs, exceptional items as disclosed in note 9.

2 Included in administrative expenses.

3 Excludes foreign exchange gains or losses on financial instruments disclosed in note 24.

4 Included in cost of sales.

The analysis of auditor's remuneration is as follows:

Fees payable to the Parent Company's auditors and their associates for the audit of:	2019 £'000	2018 £'000
– the Parent Company and Group accounts	**37**	40
– the Group's subsidiaries pursuant to legislation	**86**	80
Total audit fees	**123**	120
Fees payable to the Parent Company's auditors and their associates for other services to the Group:		
– other assurance services	**2**	2
Total non-audit fees	**2**	2

6. EMPLOYEES

Number of employees

During the year the average number of staff employed by the Group, including Directors, measured on a full time equivalent basis was as follows:

Group	2019 Number Continuing	2019 Number Discontinued	2019 Number Total	2018 Number Continuing	2018 Number Discontinued	2018 Number Total
Technical and production	**174**	**63**	**237**	158	63	221
Administration and sales	**138**	**5**	**143**	129	10	139
	312	**68**	**380**	287	73	360

The total number of staff employed by the Group at the year-end date, on an actual basis, is 399 (2018: 376). During the year, the Directors shown on pages 56 and 57 were employed by R.C. Treatt & Co Limited.

Employment costs

The following costs were incurred in respect of the above:

Group	2019 £'000 Continuing	2019 £'000 Discontinued	2019 £'000 Total	2018 £'000 Continuing	2018 £'000 Discontinued	2018 £'000 Total
Wages and salaries	**13,564**	**319**	**13,883**	12,242	487	12,729
Social security costs	**1,400**	**1**	**1,401**	1,520	36	1,556
Pension costs (see note 29)	**842**	**14**	**856**	740	27	767
Share-based payments (see note 28)	**637**	**–**	**637**	1,040	–	1,040
	16,443	**334**	**16,777**	15,542	550	16,092

Directors

The information on Directors' emoluments and share options set out on pages 79 to 83 form part of these financial statements.

7. OTHER LOSSES

Group	2019 £'000	2018 £'000
Hedge ineffectiveness on cash flow hedges	**–**	734

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

Notes to the Financial Statements continued

for the year ended 30 September 2019

8. NET FINANCE COSTS

Group	2019 £'000 Continuing	2019 £'000 Discontinued	2019 £'000 Total	2018 £'000 Continuing	2018 £'000 Discontinued	2018 £'000 Total
Finance income						
Bank interest received	**139**	**–**	**139**	–	–	–
Other interest received	**2**	**–**	**2**	36	–	36
	141	**–**	**141**	36	–	36
Finance costs						
Bank overdraft interest paid	**26**	**–**	**26**	221	42	263
Other bank finance costs	**213**	**–**	**213**	217	–	217
Pension finance cost (see note 29)	**101**	**–**	**101**	166	–	166
	340	**–**	**340**	604	42	646

9. EXCEPTIONAL ITEMS

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

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

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

10. TAXATION

Analysis of tax charge in income statement:

Group	2019 £'000 Continuing	2019 £'000 Discontinued	2019 £'000 Total	2018 £'000 Continuing	2018 £'000 Discontinued	2018 £'000 Total
Current tax:						
UK corporation tax on profits for the year	**685**	**–**	**685**	676	58	734
Adjustments to UK tax in respect of previous periods	**(298)**	**–**	**(298)**	(33)	–	(33)
Overseas corporation tax on profits for the year	**1,166**	**–**	**1,166**	2,301	–	2,301
Adjustments to overseas tax in respect of previous periods	**(59)**	**–**	**(59)**	(3)	–	(3)
Total current tax	**1,494**	**–**	**1,494**	2,941	58	2,999
Deferred tax:						
Origination and reversal of temporary differences	**1,198**	**16**	**1,214**	(325)	(15)	(340)
Effect of reduced tax rate on opening assets and liabilities	**(14)**	**–**	**(14)**	(331)	–	(331)
Adjustments in respect of previous periods	**(5)**	**–**	**(5)**	(1)	(1)	(2)
Total deferred tax (see note 17)	**1,179**	**16**	**1,195**	(657)	(16)	(673)
Tax on profit on ordinary activities	**2,673**	**16**	**2,689**	2,284	42	2,326

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

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

Analysis of tax charge/(credit) in equity:

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

Notes to the Financial Statements continued

for the year ended 30 September 2019

10. TAXATION CONTINUED

Factors affecting tax charge for the year:

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

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

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

11. DISCONTINUED OPERATIONS

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

Management has assessed the carrying value of the disposal group's assets and liabilities against the fair value less costs of disposal and recognised an impairment of £825,000 within the Income Statement. This impairment is reflected in the earnings per share below and the earnings per share from continuing and discontinued operations as shown in note 13.

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

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

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

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

The major classes of assets and liabilities, net of the aforementioned impairment, that comprise the operations classified as held for sale are as follows:

	2019 £'000	2018 £'000
Property, plant and equipment	**141**	425
Inventories	**245**	610
Trade and other receivables	**303**	523
Deferred tax	**7**	35
Current tax	**1**	5
Total assets classified as held for sale	**697**	1,598
Trade and other payables	**(14)**	(20)
Total liabilities classified as held for sale	**(14)**	(20)
Net assets of disposal group	**683**	1,578

12. DIVIDENDS

Equity dividends on ordinary shares:

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

1 Accounted for in the year ended 30 September 2017.

2 Accounted for in the year ended 30 September 2018.

3 Accounted for in the year ended 30 September 2019.

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

Notes to the Financial Statements continued

for the year ended 30 September 2019

13. EARNINGS PER SHARE

Basic earnings per share

Basic earnings per share is based on the weighted average number of ordinary shares in issue and ranking for dividend during the year. The weighted average number of shares excludes shares held by the Treatt Employee Benefit Trust ('EBT'), together with shares held by the Treatt SIP Trust ('SIP Trust'), which do not rank for dividend.

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

Diluted earnings per share

Diluted earnings per share is based on the weighted average number of ordinary shares in issue and ranking for dividend during the year, adjusted for the effect of all dilutive potential ordinary shares.

The number of shares used to calculate earnings per share (EPS) have been derived as follows:

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

Adjusted earnings per share

Adjusted earnings per share measures are calculated based on profits for the year attributable to owners of the Parent Company before exceptional items as follows:

Group	2019 £'000	2018 £'000
Profit after taxation attributable to owners of the Parent Company	**8,788**	12,229
Adjusted for:		
Exceptional items (see note 9)	**755**	1,105
Taxation thereon	**(91)**	(130)
Impairment of discontinued operations (see note 11)	**825**	–
Less gain on disposal of subsidiary (see note 27)	**–**	(2,382)
Earnings for calculating adjusted earnings per share:		
From continuing and discontinued operations	**10,277**	10,822
Less: loss/(profit) from discontinued operations	**259**	(594)
Adjusted earnings from continuing operations	**10,536**	10,228
Adjusted basic earnings per share (pence)		
– Continuing and discontinued operations	**17.38p**	19.07p
– Continuing operations	**17.82p**	18.02p
Adjusted diluted earnings per share (pence)		
– Continuing and discontinued operations	**17.15p**	18.58p
– Continuing operations	**17.58p**	17.56p

Notes to the Financial Statements continued

for the year ended 30 September 2019

14. INTANGIBLE ASSETS

Group	Development costs £'000	Lease premium £'000	Software licences £'000	Total £'000
Cost				
1 October 2017	–	343	745	1,088
Exchange adjustment	–	–	3	3
Additions	–	–	422	422
Disposals	–	–	(162)	(162)
Disposal of subsidiaries (see note 27)	–	–	(123)	(123)
30 September 2018	–	343	885	1,228
Exchange adjustment	5	–	6	**11**
Additions	135	–	43	**178**
Disposals	–	–	(228)	**(228)**
30 September 2019	**140**	**343**	**706**	**1,189**
Amortisation				
1 October 2017	–	29	455	484
Exchange adjustment	–	–	2	2
Charge for year	–	4	120	124
Disposals	–	–	(131)	(131)
Disposal of subsidiaries (see note 27)	–	–	(3)	(3)
30 September 2018	–	33	443	476
Exchange adjustment	–	–	6	**6**
Charge for year	–	4	86	**90**
Disposals	–	–	(228)	**(228)**
30 September 2019	**–**	**37**	**307**	**344**
Net book value				
30 September 2019	**140**	**306**	**399**	**845**
30 September 2018	–	310	442	752

Included in intangible assets are software licences in the course of construction totalling £166,000 (2018: £nil) and ongoing development projects totalling £140,000 (2018: £nil) which are not yet subject to amortisation.

Intangible assets with a net book value of £146,000 (2018: £18,000) have been pledged as security in relation to all US borrowings as detailed in note 21.

15. PROPERTY, PLANT AND EQUIPMENT

Group	Land & buildings £'000	Plant & machinery £'000	Fixtures, fittings & equipment £'000	Laboratory equipment £'000	Total £'000
Cost					
1 October 2017	10,593	9,348	1,668	933	22,542
Exchange adjustment	304	200	9	9	522
Additions	6,275	356	152	1	6,784
Disposals	(68)	(313)	(268)	(139)	(788)
Disposal of subsidiaries (see note 27)	–	(4)	–	–	(4)
Transfer of assets held for sale (see note 11)	(66)	(586)	–	–	(652)
30 September 2018	17,038	9,001	1,561	804	28,404
Exchange adjustment	703	479	42	14	**1,238**
Additions	4,185	4,926	845	44	**10,000**
Disposals	–	(634)	(168)	(187)	**(989)**
30 September 2019	**21,926**	**13,772**	**2,280**	**675**	**38,653**
Depreciation					
1 October 2017	1,522	4,788	900	511	7,721
Exchange adjustment	31	102	5	7	145
Charge for year	214	858	309	138	1,519
Disposals	(68)	(313)	(268)	(139)	(788)
Disposal of subsidiaries (see note 27)	–	(4)	–	–	(4)
Transfer to assets held for sale (see note 11)	(9)	(218)	–	–	(227)
30 September 2018	1,690	5,213	946	517	8,366
Exchange adjustment	66	201	12	12	**291**
Charge for year	151	892	330	126	**1,499**
Disposals	–	(633)	(168)	(187)	**(988)**
30 September 2019	**1,907**	**5,673**	**1,120**	**468**	**9,168**
Net book value					
30 September 2019	**20,019**	**8,099**	**1,160**	**207**	**29,485**
30 September 2018	15,348	3,788	615	287	20,038

Analysis of land & buildings	2019 £'000	2018 £'000
Net book value		
Freehold	**19,362**	14,674
Long leasehold	**657**	674
	20,019	15,348

Included in property, plant and equipment are land and buildings assets in the course of construction totalling £10,513,000 (2018: £6,307,000), plant and machinery assets in the course of construction of £4,850,000 (2018: £440,000) and fixtures, fittings and equipment in the course of construction totalling £871,000 (2018: £nil) which are not yet being depreciated.

Included within land and buildings assets is £239,000 (2018: £nil) of interest payments capitalised in accordance with IAS 23, 'Borrowing Costs'.

Property, plant and equipment with a net book value of £19.8m (2018: £12.1m) has been pledged as security in relation to all US borrowings as detailed in note 21.

Capital commitments	2019 £'000	2018 £'000
Contracted but not provided for	**18,145**	3,674

Notes to the Financial Statements continued

for the year ended 30 September 2019

16. INVESTMENTS IN SUBSIDIARIES

Parent Company	£'000
Cost	
1 October 2017	8,205
Capital contributions to subsidiaries	1,049
Inter company transfer of subsidiary	1
Disposal of subsidiaries	(2,245)
30 September 2018	7,010
Capital contribution to subsidiaries	**653**
30 September 2019	**7,663**

Parent Company	2019 £'000	2018 £'000
Subsidiary:		
R C Treatt & Co Limited – 50,000 ordinary shares of £1 each, fully paid	**4,871**	4,392
Treatt USA Inc – 2,975,000 common stock of US$1 each, fully paid	**2,791**	2,617
Treatt Development Company Limited – 2 ordinary shares of £1 each, fully paid	**–**	–
Speciality Oils Holding Company Kenya Limited 2,500 'A' ordinary shares of KES20 each, fully paid 2,500 'B' ordinary shares of KES20 each, fully paid	**1**	1
	7,663	7,010

During the year the Parent Company had the following subsidiary undertakings:

Subsidiary	Country of incorporation	Holding	Principal activity
Wholly owned by Treatt plc:			
R C Treatt & Co Limited	England[1]	100%	Supply of flavour and fragrance ingredients
Treatt USA Inc	USA[2]	100%	Supply of flavour and fragrance ingredients
Treatt SIP Trustees Limited	England[1]	100%	Employee share trust
Treatt Development Company Limited	England[1]	100%	Property development
Speciality Oils Holding Company Kenya Limited	Kenya[3]	100%	Intermediate holding company
Wholly owned by Speciality Oils Holding Co Kenya Limited:			
Athi River Oils EPZ Limited	Kenya[3]	100%	Supply of organic & fair trade vegetable oils
Nanyuki Oils Limited	Kenya[3]	100%	Supply of organic & fair trade essential oils

Registered office addresses:

1 Northern Way, Bury St. Edmunds, IP32 6NL, UK.

2 The Prentice-Hall Corporation System Inc., 1201 Hays Street, Suite 105, Tallahassee, FL 32301, USA.

3 LR. No. 3734/1018 Lavington, Insecta Building, Braeside Gardens off Muthangari Road, P. O. Box 76618-00508, Yaya Centre, Nairobi, Kenya.

17. DEFERRED TAXATION

Group	2019 £'000	2018 £'000
UK deferred tax asset	**1,400**	1,073
Overseas deferred tax liability	**(1,719)**	(401)
Net deferred tax (liability)/asset	**(319)**	672

A reconciliation of the net deferred tax liability is shown below:

	UK deferred tax				Overseas deferred tax		
Group	Post-employment benefits £'000	Fixed assets £'000	Cash flow hedge £'000	Share-based payments £'000	Fixed assets £'000	Other temporary differences £'000	Total £'000
1 October 2018	989	(133)	(13)	537	(1,338)	574	616
Disposal of subsidiaries	–	(4)	–	–	–	–	(4)
Exchange differences	–	–	–	–	(19)	13	(6)
Credit/(charge) to income statement							
For the year	24	54	109	3	216	(64)	342
For change in tax rate	–	–	–	–	366	(35)	331
Charge to other comprehensive income	(426)	–	(27)	–	–	–	(453)
Charge to equity	–	–	–	(5)	–	(114)	(119)
Transfer to assets held for sale	–	(35)	–	–	–	–	(35)
30 September 2018	587	(118)	69	535	(775)	374	672
Exchange differences	–	–	–	–	(84)	22	**(62)**
Credit/(charge) to income statement							
For the year	18	27	–	(56)	(1,162)	(20)	**(1,193)**
For change in tax rate	–	–	–	–	17	(3)	**14**
Credit/(charge) to other comprehensive income	719	–	(16)	–	–	–	**703**
Charge to equity	–	–	–	(365)	–	(88)	**(453)**
30 September 2019	**1,324**	**(91)**	**53**	**114**	**(2,004)**	**285**	**(319)**

At the balance sheet date, R C Treatt & Co Limited had a deferred tax asset in relation to its pension liability. R C Treatt & Co Limited has a specific plan in place to reverse the deficit and so this deferred tax asset has been recognised.

The deferred tax rate applied to UK companies within the Group is 17% (2018: 17%) as legislation has been substantively enacted which reduces the main rate of UK corporation tax from 19% to 17% from 1 April 2020. The impact of estimating the timing of deferred tax reversals in the intervening years before the rate reaches 17% is not considered to be material. The deferred tax rate applicable to the Group's US subsidiary was 21% (2018: 24%).

Notes to the Financial Statements continued

for the year ended 30 September 2019

18. INVENTORIES

Group	2019 £'000	2018 £'000
Raw materials	**14,531**	19,463
Work in progress and intermediate products	**19,145**	16,939
Finished goods	**3,123**	3,240
	36,799	39,642

Inventories are stated net of provisions for impairment of £2.7m (2018: £2.5m).

Inventory with a carrying value of £19.4m (2018: £19.9m) has been pledged as security in relation to all US borrowings as detailed in note 21.

19. TRADE AND OTHER RECEIVABLES

	Group		Parent Company	
Current	2019 £'000	2018 £'000	2019 £'000	2018 £'000
Trade receivables[1]	**21,412**	24,682	**–**	–
Amounts owed by subsidiaries	**–**	–	**52**	181
Other receivables	**388**	3,412	**34**	2,326
Prepayments	**1,220**	735	**–**	–
	23,020	28,829	**86**	2,507

1 This includes £99,000 (2018: £nil) of trade receivables which are classified under the business model of 'held to collect and sell' and are measured at fair value with changes through Other Comprehensive Income.

The Group's credit risk is primarily attributable to its trade receivables. Before accepting any new customer, the Group uses a range of information, including credit reports, industry data and other publicly or privately available information in order to assess the prospective customer's credit quality and determine credit limits by customer, and where appropriate will only accept orders on the basis of cash in advance, or if secured through a bank letter of credit. Processes are in place to manage trade receivables and overdue debt and to ensure that appropriate action is taken to resolve issues on a timely basis. Credit control operating procedures are in place to review all new customers. Existing customers are reviewed as management become aware of any specific changes in circumstances.

The average credit period taken for trade receivables is as follows:

Group	2019	2018
Average debtor days	**75**	70

The Group has adopted the simplified approach permitted by IFRS 9 for impairing trade receivables and recognises the lifetime expected credit losses ('ECL's) based on the difference between the contractual cash flows due and the cash flows the Group expects to receive over the life of the receivable. The carrying amount of receivables is reduced by the value of the provision, as determined by applying the ECL loss rate and providing for any specific provisions. A specific provision for impairment is made when there is objective evidence of impairment which is usually indicated by a significant delay in the expected cash flows or non-payment from customers.

An impairment review has been undertaken at the balance sheet date to assess whether the carrying amount of financial assets is deemed recoverable. An ECL loss rate has been applied based on the historical credit losses of the past five accounting years and adjusted to reflect current and forward-looking information. Due to historically low default rates of trade receivables, there was no material change in the impairment provided against Group receivables on the transition to IFRS 9.

The ECL model is also applied to amounts owed by subsidiaries of the Parent Company. Application of the model did not result in the recognition of an impairment in the Parent Company accounts against amounts owed by subsidiaries.

The amounts presented in the balance sheet are net of amounts that are individually determined to be impaired as follows:

Group	2019 £'000	2018 £'000
Impairment provision		
At start of year	**258**	314
Released in year	**(170)**	(133)
Provided in year	**188**	75
Foreign exchange	**9**	2
Balance at end of year	**285**	258

The Group's top five customers represent 33% (2018: 35%) of the Group's turnover. These customers have favourable credit ratings and consequently reduce the credit risk of the Group's overall trade receivables. The Directors consider that the carrying amount of trade and other receivables approximates to their fair value. The Group holds no collateral against these receivables at the balance sheet date.

The ageing profile of trade receivables which are past their due date but not impaired is as follows:

Group	2019 £'000	2018 £'000
Number of days past the due date:		
1–30	**1,201**	2,395
31–60	**33**	256
Over 60	**911**	1,147

The ageing profile of impaired trade receivables is as follows:

Group	2019 £'000	2018 £'000
Number of days past the due date:		
Current	**–**	40
1–30	**3**	3
31–60	**2**	7
Over 60	**280**	208

The currency risk in respect of trade receivables is managed in conjunction with the other currency risks faced by the Group as part of its overall hedging strategy. For further details see note 32 and the Financial Review on pages 28 to 34. The currency exposure within trade receivables of the principal foreign currencies, was as follows:

Group	2019 £'000	2018 £'000
US Dollar	**15,890**	18,979
Euro	**1,897**	2,096

Trade receivables with a carrying value of £8.6m (2018: £10.8m) have been pledged as security in relation to US borrowings as detailed in note 21.

20. CASH AND BANK BALANCES

Group and Parent Company

Cash and bank balances of £37,187,000 (2018: £32,304,000) comprise cash held by the Group and short term deposits with an original maturity of three months or less. The Parent Company held cash and bank balances of £33,210,000 (2018: £31,647,000). The carrying amount of these assets approximates to their fair value.

A detailed analysis of net cash balances by currency is shown in note 32. All material cash balances are held with the Group's main banks, being Lloyds Banking Group, HSBC and Bank of America. The credit ratings of these banks are considered to be satisfactory.

Notes to the Financial Statements continued

for the year ended 30 September 2019

21. BORROWINGS

Current

Group	2019 £'000	2018 £'000
Term loans	**749**	–
UK bank borrowings	**16,111**	19,244
	16,860	19,244

Non-current

Group	2019 £'000	2018 £'000
Term loans	**4,369**	–
US line of credit	**–**	621
US construction loan	**–**	2,380
	4,369	3,001

Loans and borrowings

Term loans comprise the following:

Group	2019 £'000	2018 £'000
Treatt USA term loan – US	**5,118**	–

The Group has a US Dollar overdraft facility ('US line of credit') of $6.0 million expiring in 2020. At the year-end date the overdrawn balance was £nil (2018: £0.6 million).

During the prior year the Group entered into an agreement with Bank of America to finance the expansion of the Group's US facility through a construction line of credit for up to $7.5 million ('US construction loan'). On 14 August 2019, this finance facility was converted to a seven-year term loan of $6.5 million. The US line of credit and the term loan, both held by Treatt USA Inc, are secured by a fixed and floating charge over Treatt USA's current and non-current assets.

The Group's UK facilities are unsecured and include revolving credit facilities of $12.0 million and £4.5 million expiring in 2023 and 2020 respectively, and overdraft facilities of $3.0 million and £2.0 million. The Group's UK-based US Dollar denominated revolving credit facility and overdraft are operated on a pooling basis, whereby interest is only charged on the net overdrawn balance of the Group's UK-based accounts, at the year-end none of these facilities were attracting interest. During the prior year all UK term loans were repaid in full.

Borrowings are repayable as follows:

Group	2019 £'000	2018 £'000
– in one year or less	**16,860**	19,244
– in more than one year but not more than two years	**749**	621
– in more than two years but not more than five years	**2,247**	–
– in more than five years	**1,373**	2,380
	21,229	22,245

Further information on Group borrowing facilities is given in notes 31 and 32, including a detailed analysis of cash balances by currency.

Borrowing facilities

At 30 September 2019 the Group had total borrowing facilities of £28.7m (2018: £25.0m) of which £9.3m (2018: £4.3m) expires in one year or less at the balance sheet date. At 30 September 2019 the Group had access to £44.7m (2018: £34.4m) of financing facilities including its own cash balances at that date.

22. PROVISIONS

Group	2019 £'000	2018 £'000
Onerous contract provision:		
At start of year	**58**	57
Utilised in year	**(55)**	(53)
Additional provision in year	**254**	52
Foreign exchange	**4**	2
Balance at end of year	**261**	58

Onerous contract provisions relate to losses which are or were expected to materialise in the future on fixed price contracts as a result of raw material price increases or market pressure on selling prices. The onerous contract provision expense is included in cost of sales within the income statement and is expected to be utilised in the following financial year.

23. TRADE AND OTHER PAYABLES

	Group		Parent Company	
Current	2019 £'000	2018 £'000	2019 £'000	2018 £'000
Trade payables	**7,858**	10,006	**199**	18
Amounts owed to subsidiaries	**–**	–	**1,308**	2,427
Other taxes and social security costs	**415**	551	**–**	–
Accruals and other creditors	**3,058**	4,741	**70**	352
	11,331	15,298	**1,577**	2,797

Trade payables principally comprise amounts for trade purchases and on-going costs. The Directors consider that the carrying amount of trade and other payables approximates to their fair values.

The currency risk in respect of trade payables is managed in conjunction with the other currency risks faced by the Group as part of its overall hedging strategy. For further details see note 32 and the Financial Review on pages 28 to 34. The currency exposure within trade payables of the principal foreign currencies, was as follows:

Group	2019 £'000	2018 £'000
US Dollar	**4,368**	5,972
Euro	**512**	452

Notes to the Financial Statements continued

for the year ended 30 September 2019

24. DERIVATIVE FINANCIAL INSTRUMENTS

Group	2019 £'000	2018 £'000
Derivative financial liabilities:		
Current:		
Foreign exchange contracts	**315**	401

The gains/(losses) on derivative financial instruments were as follows:

Group	2019 £'000	2018 £'000
Income statement:		
Foreign exchange contracts	**(1,266)**	(1,633)
Other comprehensive income:		
Interest rate swaps	**–**	176
Foreign exchange contracts	**93**	(246)
	93	(70)

Further details on the Group's hedging policies and derivative financial instruments are disclosed in note 32.

25. SHARE CAPITAL

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

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

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

26. SHARE PREMIUM ACCOUNT

Parent Company and Group	£'000
Balance at 1 October 2018 and 30 September 2019	**23,484**

27. DISPOSAL OF SUBSIDIARY

As referred to in note 11, 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
Cost 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 2019. The deferred consideration of £1,033,000 was settled in full on 12 August 2019.

The impact of the sale of Earthoil Plantations Limited on the Group's results in the prior period is disclosed in note 11.

Notes to the Financial Statements continued

for the year ended 30 September 2019

28. SHARE-BASED PAYMENTS

The Group has applied the requirements of IFRS 2, 'Share-based payments'.

The Group operates executive share option schemes for Directors, senior management and other key employees within the Group in addition to issuing UK and US approved savings-related share options for employees of certain subsidiaries. Options are granted with a fixed exercise price and will lapse when an employee leaves the Group subject to certain 'good leaver' provisions.

The Group also operates an HMRC-approved share incentive plan in the UK, and operates an equivalent scheme for its US employees.

The share-based payments charge was as follows:

Group	2019 £'000	2018 £'000
Share option schemes – see (a) below	**467**	780
Share incentive plans – see (b) below	**186**	269
	653	1,049
Effect of movement in foreign exchange rates	**(16)**	(9)
	637	1,040

(a) Share option schemes

Under the schemes listed below, options have been granted to subscribe for the following number of existing ordinary shares of 2p each in the capital of the Parent Company. These share options are expected to be settled via the transfer of shares out of the Treatt Employee Benefit Trust.

The equity-settled options which existed during the year were as follows:

	Number of share options outstanding	Number exercised in year	Exercise price per share	Date option exercisable
UK SAYE[1] Scheme 2015	–	4,643	132.0p	Sep 2018 – Feb 2019
UK SAYE[1] Scheme 2016	–	203,398	138.0p	Sep 2019 – Feb 2020
UK SAYE[1] Scheme 2017	78,825	1,088	413.0p	Sep 2020 – Feb 2021
UK SAYE[1] Scheme 2018	102,236	–	373.0p	Sep 2021 – Feb 2022
UK SAYE[1] Scheme 2019	128,789	–	361.0p	Sep 2022 – Feb 2023
US ESPP[2] Scheme 2018	–	16,733	370.0p	July 2019
US ESPP[2] Scheme 2019	21,270	–	391.0p	July 2020
UK LTIP[3] Scheme 2014	12,565	–	Nil	Jun 2017 – Jun 2024
UK LTIP[3] Scheme 2015	17,484	–	Nil	Jun 2018 – Jun 2025
UK LTIP[3] Scheme 2016	19,336	74,473	Nil	Jun 2019 – Jun 2026
US LTIP[3] Scheme 2016	–	119,248	Nil	Jun 2019 – Mar 2020
UK LTIP[3] Scheme 2017	32,018	1,977	Nil	Jun 2020 – Jun 2027
US LTIP[3] Scheme 2017	50,160	–	Nil	Jun 2020 – Mar 2021
UK LTIP[3] Scheme 2018	38,647	–	Nil	Jun 2021 – Jun 2028
US LTIP[3] Scheme 2018	54,229	–	Nil	Jun 2021 – Mar 2022
UK LTIP[3] Scheme 2019	47,588	–	Nil	Jun 2022 – Jun 2029
US LTIP[3] Scheme 2019	69,401	–	Nil	Jun 2022 – Mar 2023
US Executive[4] Options 2013	–	51,965	147.2p	Dec 2018 – Dec 2023
UK Executive[4] Options 2015	–	110,678	Nil	Dec 2018 – Dec 2025
US Executive[4] Options 2015	–	175,708	Nil	Dec 2018 – Mar 2019
UK Executive[4] Options 2016	172,746	–	Nil	Dec 2019 – Dec 2026
UK Executive[4] Options 2017	112,167	–	Nil	Dec 2020 – Dec 2027
UK Executive[4] Options 2018	134,145	–	Nil	Dec 2021 – Dec 2028

1 The SAYE schemes are HMRC-approved Save As You Earn share option plans which vest after three years. Options are forfeited where employees choose to leave the Group before the end of the three year period.

2 The ESPP schemes are IRS-approved Employee Stock Purchase Plans which vest after one year. Options are forfeited where employees choose to leave the Group before the end of the vesting period.

3 Share options are awarded to certain key employees in the UK and US under a Long Term Incentive Plan. All awards are nil-cost options which vest, subject to achievement of the relevant performance conditions, after three years and can be exercised over the following seven years in the UK, or upon vesting in the US. Save as permitted in the LTIP rules, awards lapse on an employee leaving the Group.

4 Details of the Executive options are provided in the Directors' Remuneration Report.

The fair value per option granted using the 'Black-Scholes' model, and the assumptions used in the share-based payments calculations, are as follows:

All-employee share schemes:	SAYE 2016	SAYE 2017	SAYE 2018	SAYE 2019	US ESPP 2018	US ESPP 2019
Share price at date of grant	172.5p	516.3p	466.3p	451.0p	435.3p	451.0p
Contractual life	3.5 years	3.5 years	3.5 years	3.5 years	1 year	1 year
Expected life	3 years	3 years	3 years	3 years	1 year	1 year
Expected volatility	20.7%	25.6%	27.3%	31.1%	28.2%	32.4%
Risk-free interest rate	0.36%	0.49%	0.71%	0.53%	0.71%	0.53%
Dividend yield	2.4%	0.9%	1.1%	1.2%	1.1%	1.1%
Expected cancellations	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%
Expected forfeitures	14.0%[1]	17.0%	13.0%	13.0%	4.4%[1]	5.0%
Fair value per option at date of grant	31.7p	123.0p	114.2p	117.0p	74.8p	82.6p

Key-employee share schemes:	UK LTIP 2016	US LTIP 2016	UK LTIP 2017	US LTIP 2017	UK LTIP 2018	US LTIP 2018	UK LTIP 2019
Share price at date of grant	170.0p	170.0p	503.5p	516.3p	483.0p	483.0p	455.0p
Contractual life	10 years	3.2 years	10 years	3.2 years	10 years	3.2 years	10 years
Expected life	5 years	3.2 years	5 years	3.2 years	5 years	3.2 years	5 years
Expected volatility	20.7%	20.7%	25.6%	25.6%	27.3%	27.3%	31.1%
Risk-free interest rate	0.86%	0.86%	0.51%	0.49%	0.68%	0.68%	0.62%
Dividend yield	2.4%	2.4%	0.9%	0.9%	1.0%	1.0%	1.1%
Expected cancellations	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Expected forfeitures	5.1%[1]	4.4%[1]	9.0%	4.0%	100%	100%	100%
Fair value per option at date of grant	150.7p	157.3p	481.7p	502.2p	458.9p	467.4p	429.7p

	US LTIP 2019
Share price at date of grant	455.0p
Contractual life	3.2 years
Expected life	3.2 years
Expected volatility	31.1%
Risk-free interest rate	0.62%
Dividend yield	1.1%
Expected cancellations	0.0%
Expected forfeitures	100%
Fair value per option at date of grant	438.6p

1 Actual forfeiture experienced.

Notes to the Financial Statements continued

for the year ended 30 September 2019

28. SHARE-BASED PAYMENTS CONTINUED

Executive share schemes:	US Exec 2013	UK Exec 2015	US Exec 2015	UK Exec 2016	UK Exec 2017	UK Exec 2018
Share price at date of grant	147.2p	164.5p	164.5p	273.5p	452.0p	404.0p
Contractual life	10 years	10 years	10 years	10 years	10 years	10 years
Expected life	10 years	5 years	5 years	5 years	5 years	5 years
Expected volatility	23.3%	23.3%	23.3%	20.7%	25.6%	27.3%
Risk-free interest rate	1.70%	1.25%	1.25%	0.57%	0.51%	0.73%
Dividend yield	2.5%	2.5%	2.5%	1.6%	1.1%	1.3%
Expected cancellations	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Expected forfeitures	0.0%[1]	0.0%[1]	0.0%[1]	0.0%	100%	100%
Fair value per option at date of grant	29.6p	145.5p	145.5p	252.3p	428.6p	379.3p

1 Actual forfeiture experienced.

Expected volatility was determined by calculating the historical volatility of the Group's share price over a period equivalent to the vesting period of the respective options prior to their date of grant.

The risk-free interest rate was based on the simple average of the historical daily gilt yields quoted for five year benchmark gilts during the month in which a grant of options is made.

Details of movements in share options during the year were as follows:

Group	2019 Number of options	2019 Weighted average exercise price	2018 Number of options	2018 Weighted average exercise price
Outstanding at start of year	**1,471,647**	**£0.82**	2,055,870	£0.60
Granted during the year	**401,193**	**£1.37**	341,392	£1.38
Forfeited during the year	**(19,897)**	**£2.97**	(41,235)	£1.38
Exercised during the year	**(759,911)**	**£0.57**	(873,084)	£0.49
Expired during the year	**–**	**£0.00**	(5,523)	£0.00
Cancelled during the year	**(1,426)**	**£3.83**	(5,773)	£3.24
Outstanding at end of year	**1,091,606**	**£1.15**	1,471,647	£0.82
Exercisable at end of year	**49,385**	**£0.00**	34,821	£0.18

Forfeiture arises when the employee is no longer entitled to participate in the savings-related share option scheme as a consequence of leaving the Group whereas cancellation arises when a participant voluntarily chooses to cease their membership of a scheme within the vesting period.

The options outstanding had a weighted average remaining contractual period of 5.4 years (2018: 5.1 years). The weighted average actual market share price on the date of exercise for share options exercised during the year was 431.9 pence (2018: 471.1 pence) and the weighted average fair value of options granted during the year was 295.6 pence (2018: 316.6 pence).

(b) Share incentive plans

All UK-based employees are eligible to participate in an HMRC-approved SIP once they have been with the Group for a qualifying period of up to twelve months. US employees participate in a similar scheme through the use of nil cost Restricted Stock Units ('RSUs'). During the year UK employees were awarded £600 (2018: £575) of 'Free Shares', and US employees $900 (2018: $875) of RSUs, in Treatt plc. There are no vesting conditions attached to the Free Shares or RSUs, other than being continuously employed by the Group for three years from the date of grant. UK employees can also buy shares in Treatt plc out of pre-tax income, subject to an annual HMRC limit, currently £1,800. These shares are called 'Partnership Shares' and are held in trust on behalf of the employee. The employees must take their shares out of the plan on leaving the Group. For every Partnership Share acquired during the year, one and a half (2018: one and a half) 'Matching Shares' were awarded under the rules of the SIP. Matching Shares are subject to the same forfeiture rules as Free Shares.

Details of the SIP shares not yet vested were as follows:

	Number of free and matching shares		Number of nil cost RSUs	
Group	**2019**	**2018**	**2019**	**2018**
Outstanding at start of year	**184,845**	180,854	**44,617**	54,904
Granted during the year	**58,110**	69,809	**13,050**	10,439
Vested during the year	**(74,499)**	(44,831)	**(17,928)**	(19,032)
Forfeited during the year	**(7,691)**	(6,676)	**(1,099)**	(1,694)
Released during the year	**(2,264)**	(14,311)	**(3,110)**	–
Outstanding at end of year	**158,501**	184,845	**35,530**	44,617

In accordance with IFRS 2, no valuation model is required to calculate the fair value of awards under the SIPs. The fair value of an equity-based payment under the SIPs is the face value of the award on the date of grant because the participants are entitled to receive the full value of the shares and there are no market-based performance conditions attached to the awards.

At 30 September 2019 the number of shares held by the EBT was 454,000 (2018: 542,000), and the number of shares held by the SIP was 507,000 (2018: 540,000) shares of which 369,000 (2018: 326,000) relates to shares beneficially held by employees (including those not yet vested shown above).

29. POST-EMPLOYMENT BENEFITS

The Group's UK subsidiary R.C. Treatt & Co Limited (the 'Company') operates a wholly-funded defined benefit pension scheme for certain current and former UK employees. The scheme's assets are held separately from the assets of the Group and are administered by trustees and managed professionally. From 1 October 2001 this scheme was closed to new entrants and from 1 January 2013 was not subject to any further accruals. Instead, members of the final salary pension scheme became eligible for membership of a defined contribution pension plan with effect from 1 January 2013.

Defined contribution schemes are operated on behalf of eligible employees throughout the Group, the assets of which are held separately from those of the Group in independently administered funds.

The pension charge for the year was made up as follows:

Group	2019 £'000	2018 £'000
Defined contribution schemes	**832**	743
Other pension costs	**24**	24
	856	767

The defined contribution schemes pension charge includes £14,000 (2018: £27,000) in respect of discontinued operations.

Notes to the Financial Statements continued

for the year ended 30 September 2019

29. POST-EMPLOYMENT BENEFITS CONTINUED

Defined benefit pension scheme

The Group accounts for pensions in accordance with IAS 19, 'Employee Benefits', details of which are as follows:

The valuation used for IAS 19 disclosures in respect of the defined benefit pension scheme ('the scheme') for the current and prior period has been based on the most recent actuarial valuation at 1 January 2018 carried out by Barnett Waddingham and updated by Mrs L Lawson, a Fellow of the Institute and Faculty of Actuaries, to take account of the requirements of IAS 19 in order to assess the liabilities of the scheme at 30 September 2019. Scheme assets are stated at their market value as at that date.

The scheme is subject to the Statutory Funding Objective under the Pensions Act 2004. A valuation of the scheme is carried out at least once every three years to determine whether the Statutory Funding Objective is met. As part of the process the Group must agree with the trustees of the scheme the contributions to be paid to address any shortfall against the Statutory Funding Objective. The Statutory Funding Objective does not currently impact on the recognition of the scheme in these financial statements.

The scheme is managed by a board of trustees appointed in part by the Group and part from elections by members of the scheme. The trustees have responsibility for obtaining valuations of the fund, administering benefit payments and investing the scheme's assets. The trustees delegate some of these functions to their professional advisors where appropriate.

The scheme exposes the Group to a number of risks:

- **Investment risk:** The scheme holds investments in asset classes, such as equities, which have volatile market values and while these assets are expected to provide real returns over the long-term, the short-term volatility can cause additional funding to be required if a deficit emerges.
- **Interest rate risk:** The scheme's liabilities are assessed using market yields on high quality corporate bonds to discount the liabilities. As the scheme holds assets such as equities the value of the assets and liabilities may not move in the same way.
- **Inflation risk:** A proportion of the benefits under the scheme are linked to inflation. Although the scheme's assets are expected to provide a good hedge against inflation over the long-term, movements over the short-term could lead to deficits emerging.
- **Mortality risk:** In the event that members live longer than assumed a greater deficit will emerge in the scheme.
- **Member options:** Certain benefit options may be exercised by members without requiring the consent of the trustees or the Company, for example exchanging pension for cash at retirement. In this example, if fewer members than expected exchange pension for cash at retirement then a funding strain will emerge. The assets do not include any investment in shares of the Group and there were no plan amendments, curtailments or settlements during the period. The disclosure liability makes no allowance for discretionary benefits.

The financial assumptions used to calculate scheme liabilities and assets under IAS 19 are:

Group	2019	2018
Discount rate	**1.90%**	2.90%
Rate of inflation (RPI)	**3.30%**	3.35%
Rate of inflation (CPI)	**2.30%**	2.35%
Rate of increase in pensions in payment – CPI max 5%	**2.25%**	2.30%
Rate of increase in pensions in payment – CPI max 3%	**1.95%**	2.00%
Rate of increase in pensions in payment – CPI max 2.5%	**1.80%**	1.85%
Revaluation in deferment	**2.30%**	2.35%
Mortality table	**100% of S2PxA table with CMI_2016 projections with a long term average rate of improvement of 1.25% pa**	100% of S2PxA table with CMI_2016 projections with a long term average rate of improvement of 1.25% pa
Commutation allowance	**20%**	20%
Proportion married (at retirement or earlier death)	**75%**	75%
Rate of increase in salaries	**N/A**	N/A
Life expectancy for male aged 65 in 20 years' time	**23.7**	23.6
Life expectancy for female aged 65 in 20 years' time	**25.7**	25.6
Life expectancy for male aged 65 now	**22.2**	22.2
Life expectancy for female aged 65 now	**24.1**	24.0

Effect of the scheme on future cash flows

The Company is required to agree a schedule of contributions with the trustees of the scheme following a full valuation which must be carried out at least once every three years. The latest valuation of the scheme took place as at 1 January 2018. The valuation revealed that there was a funding surplus in the scheme as at that date of £473,000, being a funding level of 103%. It has been agreed with the trustees that, consequently, the Company could continue not to make contributions to the scheme for the foreseeable future. It was further agreed that if the annual actuarial funding update revealed that the scheme funding level had fallen to below 95%, then contributions would be resumed. The actuarial funding update as at 30 September 2019 revealed an actuarial deficit of £2,538,000 (2018: surplus of £694,000), being a funding level of 90% (2018: 103%). The Company therefore expects to make on-going contributions to its defined benefit pension scheme in 2020 of £300,000 (2019: £nil). The weighted average duration of the defined benefit obligation is approximately 20 years.

Group	2019 £'000	2018 £'000
Scheme assets:		
Equities	**10,292**	11,515
Target return funds	**6,818**	5,492
Bonds	**4,589**	4,172
Other	**153**	106
Fair value of scheme assets	**21,852**	21,285
Present value of funded obligations (scheme liabilities)	**(29,640)**	(24,742)
Deficit in the scheme recognised in the balance sheet	**(7,788)**	(3,457)
Related deferred tax	**1,324**	587
Net pension liability	**(6,464)**	(2,870)
Changes in scheme liabilities		
Balance at start of year	**(24,742)**	(26,790)
Interest cost	**(710)**	(756)
Benefits paid	**542**	548
Remeasurement losses:		
Experience gains on obligation	**–**	1,272
Actuarial (loss)/gain arising from changes to demographic assumptions	**(181)**	399
Actuarial (loss)/gain arising from changes in financial assumptions	**(4,549)**	585
Balance at end of year	**(29,640)**	(24,742)
Changes in scheme assets		
Balance at start of period	**21,285**	20,969
Interest on scheme assets	**609**	590
Employer contributions	**–**	25
Benefits paid	**(542)**	(548)
Remeasurement gains:		
Return on plan assets (excluding amounts included in interest expense)	**500**	249
Balance at end of year	**21,852**	21,285

Notes to the Financial Statements continued

for the year ended 30 September 2019

29. POST-EMPLOYMENT BENEFITS CONTINUED

Group	2019 £'000	2018 £'000
Amount charged to finance costs		
Interest on scheme assets	**609**	590
Interest on scheme liabilities	**(710)**	(756)
Net finance cost recognised in income statement	**(101)**	(166)
Amount recognised in statement of comprehensive income		
Gain on scheme assets in excess of interest	**500**	249
Gain on obligation	**–**	1,272
(Loss)/gain from changes to demographic assumptions	**(181)**	399
(Loss)/gain from changes to financial assumptions	**(4,549)**	585
Remeasurement (loss)/gain recognised in statement of comprehensive income	**(4,230)**	2,505
Actual return on scheme assets	**1,109**	839
Cumulative remeasurement loss recognised in statement of comprehensive income	**(8,705)**	(4,475)

Approximate effect of change of assumptions on liability values at 30 September 2019:

	Increase liability by: £'000
Reduce discount rate by 0.25% pa	**1,388**
Increase inflation and all related assumptions by 0.1% pa	**373**
Increase life expectancy by one year	**1,267**

The above sensitivities are approximate and only show the likely effect of an assumption being adjusted whilst all other assumptions remain the same. The assumptions used in preparing this sensitivity analysis are unchanged from the prior year.

30. COMMITMENTS UNDER OPERATING LEASES

The Group as lessee

As at 30 September 2019, the Group had total commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

Group	2019 £'000	2018 £'000
Within one year	**67**	85
In one to two years	**34**	42
In two to five years	**84**	25
In more than five years	**109**	–
	294	152

The Group as lessor

As at 30 September 2019, the Group had contracted with tenants for the following future minimum lease payments which fall due as follows:

Group	2019 £'000	2018 £'000
Within one year	**9**	9

Details of lease payments under operating leases recognised as an expense in the year are disclosed in note 5.

31. CONTINGENT LIABILITIES

Parent Company

The Parent Company has guaranteed the borrowings for Treatt USA Inc. At the balance sheet date the liability covered by this guarantee amounted to US$4,808,000 (£3,902,000) (2018: US$3,914,000 (£3,001,000)).

The Parent Company has also guaranteed certain bank borrowings of its UK subsidiaries R C Treatt & Co Limited and Treatt Development Company Limited. At the year-end the liabilities covered by this guarantee amounted to £13,618,000 (2018: £19,018,000).

Notes to the Financial Statements continued

for the year ended 30 September 2019

32. FINANCIAL INSTRUMENTS

Parent Company and Group

Capital risk management

The Group and Parent Company manage their capital to ensure that entities in the Group continue as going concerns whilst maximising returns to stakeholders through the optimisation of the debt and equity balance. The capital structure of the Group consists of net debt and equity shareholders' funds. The Group is not subject to any externally imposed capital requirements. Board policy is to operate with a mix of short and medium-term borrowings. The Group has a mix of facilities, including a £4.5m (2018: £4.5m) three year revolving credit facility with Lloyds Banking Group and a $12m (2018: $12m) four year revolving credit facility with HSBC in the UK, together with a $6m four year line of credit facility with Bank of America in the US. During the year the Group entered into a further agreement with Bank of America to convert a $7.5m construction loan facility into a $6.46m term loan over seven years. None of these facilities expire in the same financial years and all bank facilities are operated independently and are therefore not syndicated. The Group's net debt position is monitored daily and reviewed by management on a weekly basis. Further details of the Group's capital management are given in the Financial Review on pages 28 to 34.

Categories of financial instruments

In the following table those financial instruments which are measured subsequent to initial recognition at fair value are required to be grouped into levels 1 to 3 based on the degree to which the fair value is observable:

- level 1 – fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;
- level 2 – fair value measurements are those derived from inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- level 3 – fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

	Group		Parent Company	
	2019 £'000	**2018 £'000**	**2019 £'000**	**2018 £'000**
Financial assets				
Measured at amortised cost:				
Trade receivables[1, 2]	**21,412**	24,682	**–**	–
Cash and cash equivalents	**37,187**	32,304	**33,210**	31,647
	58,599	56,986	**33,210**	31,647

	Group		Parent Company	
	2019 £'000	**2018 £'000**	**2019 £'000**	**2018 £'000**
Financial liabilities				
Measured at amortised cost:				
Trade payables	**7,858**	10,006	**199**	18
Bank borrowings	**16,111**	19,865	**–**	–
US term loans	**5,118**	2,380	**–**	–
Measured at fair value:				
Forward currency contracts (level 2)	**315**	401	**–**	–
	29,402	32,652	**199**	18

1 Trade receivables at amortised cost are shown net of lifetime expected credit losses.

2 This includes £99,000 (2018: £nil) of trade receivables which are classified under the business model of 'held to collect and sell' and are measured at fair value with changes through Other Comprehensive Income.

Fair values of financial assets and liabilities

The estimated fair values of financial assets and liabilities is not considered to be significantly different from their carrying values.

Financial risk management objectives

The Group and Parent Company collate information from across the business and report to the Board on key financial risks. These risks include credit risk, liquidity risk, interest rate risk and currency risk. The Group has policies in place, which have been approved by the Board, to manage these risks. The Group does not enter into traded financial instruments as the costs involved currently outweigh the risks they seek to protect against. Speculative purchases of financial instruments are not made.

Credit risk management

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group or Parent Company. The Group's credit risk is primarily attributable to its trade receivables and details of how this risk is managed are explained in note 19. The credit risk on liquid funds is limited because the counterparties are banks with good credit ratings assigned by international credit rating agencies as outlined in note 20. The Directors are of the opinion that there are no significant concentrations of credit risk. The carrying amount of financial assets recorded in the financial statements, which is net of impairment losses, represents the Group and Parent Company's maximum exposure to credit risk.

Liquidity risk management

Liquidity risk refers to the risk that the Group may not be able to fund the day to day running of the Group. Liquidity risk is reviewed by the Board at all Board meetings. The Group manages liquidity risk by monitoring actual and forecast cash flows and matching the maturity profiles of financial assets and liabilities. The Group also monitors the drawdown of debt against the available banking facilities and reviews the level of reserves. Liquidity risk management ensures sufficient debt funding is available for the Group's day to day needs. Board policy is to maintain a reasonable headroom of unused committed bank facilities.

The Group has a number of debt facilities, details of which, including their terms and maturity profile, are given in note 21.

The Board also monitors the Group's banking covenants which are calculated under IFRS. There were no breaches during the year or prior period.

Interest rate risk management

The Group is exposed to interest rate risk on short to medium-term borrowings primarily with three major institutions being HSBC, Lloyds Banking Group and Bank of America. The risk is managed by maintaining borrowings with several institutions across a number of currencies, principally US Dollar and Sterling. Long-term financing is primarily used to finance long-term capital investment.

The Group settled all outstanding interest rate swaps during the year ended 30 September 2018. The gain on interest rate swaps in the prior year was as follows:

Group	2019 £'000	2018 £'000
Other comprehensive income	–	176

The Group has facilities denominated in various currencies, all of which attract floating rate interest. Interest on floating rate bank deposits is based on UK base rates or currency LIBOR as applicable. Interest on bank overdrafts is charged at 1.2% - 1.85% (2018: 1.2% - 1.85%) above bank base or currency LIBOR rates.

The Group's cash/(debt) position by currency at year-end, is as follows:

	Floating rate financial liabilities	
Group	**2019 £'000**	**2018 £'000**
Bank facilities:		
US Dollars	**(2,215)**	(2,982)
Sterling[1]	**17,202**	13,733
Other[1]	**971**	(692)
Total net cash	**15,958**	10,059

1 Bank borrowings are shown net of positive cash balances where rights of set-off exist.

The Parent Company bank balances were all held in Sterling.

Notes to the Financial Statements continued

for the year ended 30 September 2019

32. FINANCIAL INSTRUMENTS CONTINUED

Interest rate sensitivity analysis has been performed on the floating rate financial liabilities to illustrate the impact on Group profits if interest rates increased or decreased. This analysis assumes the liabilities outstanding at the period end, after taking account of rights of set off, were outstanding for the whole period. A 100 bps increase or decrease has been used, comprising management's assessment of reasonably possible changes in interest rates. If interest rates had been 100 bps higher or lower, then profit before taxation for the year ended 30 September 2019 would have decreased or increased as follows:

	Group		Parent Company	
	2019 £'000	**2018 £'000**	**2019 £'000**	**2018 £'000**
Impact on profit before tax of 1% interest rate movement	**(52)**	(101)	**–**	–

It has been assumed that all other variables remained the same when preparing the interest rate sensitivity analysis and that floating rate short term bank borrowings in the same currency are netted against each other for the purpose of interest rate calculation.

Foreign currency risk management

Foreign currency risk management occurs at a transactional level on revenues and purchases in foreign currencies and at a translational level in relation to the translation of overseas operations. The Group's main foreign exchange risk is the US Dollar. The Group has a risk management strategy with regards to the hedging of foreign currency transactions which is approved by the Audit Committee. The policy for the UK business is to mitigate foreign currency transactional exposures by holding borrowings in US Dollars as well as by entering into foreign currency forward contracts and options on a rolling basis with the aim to match the value of the contracts, the hedging instrument, to the expected amount of foreign currency receipts or purchases in the period, the hedged item.

Where the hedged item and hedging instrument are aligned economically and matched on a 1:1 ratio, a hedge is considered effective and is accounted for using the principles of hedge accounting. Ineffectiveness can occur as a result of a mismatch between the hedged item and instrument, for example as a result of credit risk deterioration in the Group or the counterparty's credit risk, or more likely a shortfall in the amount of expected receipts or payments.

Further details of the Group's foreign currency risk management can be found in the Financial Review on pages 28 to 34.

Foreign currency contract assets and liabilities are shown under the heading of 'derivative financial instruments', in current assets and liabilities respectively within the Group balance sheet. The following table details the forward and option contracts outstanding at the year-end as well as information regarding their related hedged items:

Group - as at 30 September 2019	**Average contract rate**	**Nominal currency '000**	**Contract GBP £'000**	**Fair value gain/(loss) £'000**
US Dollars:				
Forward contract to sell USD within 1–3 months	1.307	$10,750	**8,223**	**(484)**
Forward contract to sell USD within 4–6 months	1.216	$10,000	**8,224**	**152**
Euros:				
Forward contract to sell EUR within 1–3 months	1.146	€2,500	**2,181**	**(34)**
Forward contract to sell EUR within 4–6 months	1.077	€700	**650**	**28**
Swiss Francs:				
Option to purchase SFr within 4–6 months	1.302	SFr475	**365**	**23**
				(315)

Group – as at 30 September 2018	Average contract rate	Nominal currency '000	Contract GBP £'000	Fair value gain/(loss) £'000
US Dollars:				
Forward contract to sell USD within 1–3 months	1.360	$21,000	15,445	(661)
Forward contract to sell USD within 4–6 months	1.278	$14,700	11,503	281
Euros:				
Forward contract to sell EUR within 1– 3 months	1.138	€2,000	1,758	(27)
Forward contract to sell EUR within 4–6 months	1.114	€1,800	1,616	6
				(401)

The derivative financial instruments for the foreign currency contracts and options described above are all held as cash flow hedges and are classified as level 2. The fair value of the foreign currency contracts at the year-end equate to the mark-to-market valuation of the contracts and options provided by HSBC and Lloyds Banking Group. These represent the amounts which the Group would expect to pay or receive in order to close these contracts at the balance sheet date.

The gain/(loss) recognised in the Group statement of comprehensive income on cash flow hedges of foreign currency receipts during the year, is as follows:

Group	2019 £'000	2018 £'000
Revenue	**(1,266)**	(899)
Other losses (as a result of hedge ineffectiveness)	**–**	(734)
Other comprehensive income	**70**	(246)
	(1,196)	(1,879)

The gain on financial instruments used for the cash flow hedges of foreign currency asset purchases, to be recognised as a reduction in the carrying amount of a purchased asset, is as follows:

Group	2019 £'000	2018 £'000
Other comprehensive income	**23**	–

Notes to the Financial Statements continued

for the year ended 30 September 2019

32. FINANCIAL INSTRUMENTS CONTINUED

The reconciliation of the hedging reserve per the statement of changes in equity is as follows:

Group	Currency forwards £'000	Interest rate swaps £'000	Hedging Reserve £'000
1 October 2017	255	(335)	(80)
Fair value movement on:			
– Cash flow hedges of probable future receipts	(246)	–	(246)
– Interest rate swaps	–	176	176
Transfer from hedging reserve to:			
– Profit and loss account	–	227	227
Taxation relating to items above	41	(68)	(27)
30 September 2018	50	–	50
Fair value movement on:			
– Cash flow hedges of probable future receipts	70	–	**70**
– Cash flow hedges of probable future purchases	23	–	**23**
Taxation relating to items above	(16)	–	**(16)**
30 September 2019	**127**	**–**	**127**

The Group's currency exposure, being those exposures arising from transactions where the net currency gains and losses will be recognised in the income statement, is as follows:

Group - net foreign currency financial assets	2019 £'000	2018 £'000
US Dollar	**6,833**	4,907
Other	**2,778**	1,471
	9,611	6,378

A currency sensitivity analysis has been performed on the financial assets and liabilities to sensitivity of a 10% increase/decrease in the Pounds Sterling to US Dollar exchange rate. A 10% strengthening of the US Dollar has been used, comprising management's assessment of reasonably possible changes in US Dollar exchange rates. The impact on profit for the period in the income statement would be a gain/(loss) on net monetary assets or liabilities as follows:

Group	2019 £'000	2018 £'000
Impact of 10% strengthening of US Dollar against Pound Sterling	**759**	545

In management's opinion the sensitivity analysis is unrepresentative of the inherent foreign exchange risk since it is limited to the year-end exposure and does not reflect the exposure during the year.

33. RELATED PARTY TRANSACTIONS

The following transactions were carried out with related parties:

Group

Remuneration of key management personnel

The remuneration of the Directors, who are the key management personnel of the Group, is set out below in aggregate. Further information about the remuneration of individual Directors is provided in the Directors' Remuneration Report on pages 70 to 74.

Group	2019 £'000	2018 £'000
Salaries and other short-term employee benefits	**1,222**	1,262
Employers' social security costs	**168**	108
Pension contributions to money purchase schemes	**60**	56
Share-based payments	**477**	440
	1,927	1,866

No Directors were active members of a defined benefit pension scheme as the scheme was closed to future accrual with effect from 31 December 2012. Further details on Directors' pensions are given in the Directors' Remuneration Report on page 83.

Parent Company

Transactions with subsidiaries:

Parent Company	2019 £'000	2018 £'000
Interest received from:		
Earthoil Plantations Limited	**–**	29
Dividends received from:		
R C Treatt & Co Limited	**1,545**	1,600
Treatt USA Inc	**1,539**	1,302

Balances with subsidiaries:

Parent Company	2019 £'000	2018 £'000
Amounts owed to/(by) Parent Company:		
Athi River Oils EPZ Limited [1]	**52**	181
R C Treatt & Co Limited	**(1,308)**	(2,427)

Amounts owed to the Parent Company are unsecured and will be settled in cash.

1 The amount owed by Athi River Oils EPZ Limited was impaired by £2,000,000 in the prior year, as on a stand-alone basis they would not have had sufficient funds to have met the balance.

Notice of Annual General Meeting

for the year ended 30 September 2019

THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION. IF YOU ARE IN ANY DOUBT AS TO WHAT ACTION TO TAKE YOU ARE RECOMMENDED TO CONSULT YOUR STOCKBROKER, SOLICITOR, ACCOUNTANT OR OTHER INDEPENDENT ADVISOR AUTHORISED UNDER THE FINANCIAL SERVICES AND MARKETS ACT 2000.

If you have sold or transferred all of your ordinary shares in Treatt plc, you should pass this document, together with the accompanying form of proxy, to the person through whom the sale or transfer was made for transmission to the purchaser or transferee.

Notice of the Annual General Meeting which has been convened for 31 January 2020 at 10.30 am at Treatt plc, Northern Way, Bury St. Edmunds, Suffolk, IP32 6NL is set out below.

Shareholders are requested to complete and submit their proxy appointment online by using the Signal Shares share portal service at www.signalshares.com as soon as possible and, in any event, by no later than 10.30 am on 29 January 2020, being 48 hours before the time appointed for the holding of the Annual General Meeting. To do so, you will need to log in to your Treatt plc Signal Shares account, or register if you have not previously done so. To register you will need your Investor Code, which is detailed on your share certificate or is available from our registrars, Link Asset Services. For those who hold their shares in uncertificated form in CREST, proxy appointments may be made via the CREST system.

Proxy appointments can also be made by completing a paper proxy form and returning it to Link Asset Services in accordance with the instructions printed on the form. If you require a paper proxy form, please contact Link Asset Services by email at enquiries@linkgroup.co.uk or by telephone on 0871 664 0300 if calling from the United Kingdom or +44 371 664 0300 if calling from outside of the United Kingdom. Calls cost 12p per minute plus your phone company's access charge. Calls outside the United Kingdom will be charged at the applicable international rate. Lines are open between 09:00 and 17:30, Monday to Friday excluding public holidays in England and Wales.

Notice is hereby given that the Annual General Meeting of the Shareholders of Treatt plc (the 'Company') will be held at Treatt plc, Northern Way, Bury St. Edmunds, Suffolk, IP32 6NL on 31 January 2020, at 10.30 am for the transaction of the following business:

ORDINARY RESOLUTIONS

Resolution 1 – Annual accounts and Directors' Report

1. To receive the audited accounts and related reports of the Directors and Auditors for the year ended 30 September 2019.

Explanatory note

Under the Companies Act 2006 (the 'Act') the Directors of the Company must present the accounts to the meeting.

Resolution 2 – Directors' Remuneration Report

2. To approve the Directors' Remuneration Report.

Explanatory note

The Act, implemented by the Enterprise and Regulatory Reform Act 2013, provides that a quoted company may not make a remuneration payment to a Director of the Company unless the payment is consistent with the Company's Remuneration Policy, as approved by shareholders, or the payment is approved by a Shareholders' Resolution. The legislation requires two resolutions to be put to shareholders on separate sections of the Directors' Remuneration Report. The Remuneration Policy is only required to be approved by shareholders every three years or in the intervening period if amendments are proposed. The Company's Remuneration Policy was approved at the 2018 Annual General Meeting and accordingly, since no amendments are proposed, it will not be put before shareholders at the Annual General Meeting in 2020. Resolution 2 is an advisory resolution on the Implementation Section of the Directors' Remuneration Report, which details the remuneration packages paid to Directors during the year ended 30 September 2019. You can find the Implementation Section of the Directors' Remuneration Report on pages 77.

Resolution 3 – Final dividend

3. To approve a final dividend of 3.8p per share on the ordinary shares of the Company for the year ended 30 September 2019

Explanatory note

A final dividend can only be paid after the shareholders at a general meeting have approved it. A final dividend of 3.8 pence per ordinary share is recommended by the Directors for payment to shareholders who are on the register of members at the close of business on 7 February 2020. If approved, the date of payment of the final dividend will be 19 March 2020. An interim dividend of 1.7 pence per ordinary share was paid on 15 August 2019. This represents an increase of 0.4 pence per share, or 7.84%, on the total 2018 dividend.

Resolutions 4 to 11 – Re-election of Directors

4. To re-elect Tim Jones as a Director of the Company.
5. To re-elect Daemmon Reeve as a Director of the Company.
6. To re-elect Richard Hope as a Director of the Company.
7. To re-elect David Johnston as a Director of the Company.
8. To re-elect Jeff Iliffe as a Director of the Company.
9. To re-elect Richard Illek as a Director of the Company.
10. To re-elect Yetunde Hofmann as a Director of the Company.
11. To re-elect Lynne Weedall as a Director of the Company.

Explanatory note

In accordance with the 2018 Corporate Governance Code all Directors will retire and stand for re-election annually. Short biographies of the Directors are given on pages 56 and 57 Having considered the performance of, and contribution made, by each of the Directors, the Board remains satisfied that the performance of each of the Directors continues to be effective and to demonstrate commitment to the role and, as such, recommends their re-election.

Resolution 12 – Re-appointment of auditors

12. To re-appoint RSM UK Audit LLP as Auditors of the Company, to hold office from the conclusion of this meeting until the conclusion of the next Annual General Meeting.

Explanatory note

At each general meeting at which the Company's Annual Report and Accounts are presented to its ordinary shareholders, the shareholders are required to appoint an auditor to serve until the next such meeting. Following a recommendation by the Audit Committee, the Board is proposing the reappointment of RSM UK Audit LLP as auditors of the Company.

Resolution 13 – Auditors remuneration

13. To authorise the Directors to determine the remuneration of the Auditors of the Company.

Explanatory note

The remuneration of the Company's auditors must be fixed by the Company in general meeting or in such manner as the shareholders may determine in general meeting. This resolution gives authority to the Directors to determine the remuneration of the auditors of the Company.

Resolution 14 – Increase in aggregate fees of Non-executive Directors

14. THAT the maximum aggregate fees permitted to be paid to the Non-executive Directors' of the Company, pursuant to article 18.3 of the Company's articles of association, be and is hereby increased from £225,000 to £300,000.

Explanatory note

Article 18.3 provides that the ordinary remuneration of the Non-executive Directors, excluding the Chairman, shall not exceed £150,000 per annum in aggregate, unless a higher sum is determined by ordinary resolution of the Company. This limit was increased to £225,000 at the Annual General Meeting in 2014. The ordinary fees of the Non-executive Directors total £210,125. The proposed increase in the maximum aggregate fees to £300,000, will provide the Board with sufficient flexibility to ensure that the skills, expertise and diversity of the Board remain appropriate for the future and that the Board is sufficiently balanced to enable it to fulfil its obligations to shareholders.

Shareholders should note that increasing the maximum aggregate fees for Non-executive Directors does not mean that shareholders are approving an increase in the fees payable to each current Non-executive Director. Increases in individual Non-executive Directors fees will be subject to the Company's Remuneration Policy.

Resolution 15 – Authority to allot securities

15. THAT in accordance with section 551 of the Companies Act 2006 (the 'Act') the Directors be and are hereby generally and unconditionally authorised to exercise all the powers of the Company to allot shares in the Company and to grant rights to subscribe for, or to convert any security into, shares in the Company:

(a) up to an aggregate nominal amount of £401,097 (such amount to be reduced by the nominal amount allotted or granted under paragraph (b) below in excess of such sum); and

(b) comprising equity securities (as defined in Sections 560 of the Act) up to an aggregate nominal amount of £802,194 (such amount to be reduced by any allotments or grants made under paragraph (a) above) in connection with an offer by way of a rights issue in favour of ordinary shareholders in proportion (as nearly as may be practicable) to the respective number of ordinary shares held by them on the record date for such allotment (and holders of any other class of equity securities entitled to participate therein or if the Directors consider it necessary, as permitted by the rights of those securities), but subject to such exclusions or other arrangements as the Directors may consider necessary or appropriate to deal with fractional entitlements, treasury shares, record dates or legal, regulatory or practical difficulties which may arise under the laws of, or the requirements of any regulatory body or stock exchange in, any territory or any other matter whatsoever,

provided that this authority shall expire at the conclusion of the Annual General Meeting of the Company to be held in 2021, or at close of business on 30 April 2021 (whichever occurs first) save that the Company may before such expiry make an offer or enter into an agreement which would or might require shares to be allotted, or rights to subscribe for or to convert securities into shares to be granted, after such expiry and the Directors may allot shares or grant such rights in pursuance of such an offer or agreement as if the authority conferred hereby had not expired.

Explanatory note

The Company may only allot ordinary shares or grant rights over ordinary shares if authorised to do so by shareholders. This resolution seeks to grant authority to the Directors to allot unissued share capital of the Company and grant rights to subscribe for, or convert other securities into, shares and will expire at the conclusion of the next Annual General Meeting of the Company in 2021 or, if earlier, on 30 April 2021 (the date which is 15 months after the date of passing of the resolution). Whilst the Board has no present intention of exercising these authorities, the Board believes it is in the best interests of the Company to have these authorities so that, if the need arises, the Board can allot securities at short notice and without the need to hold a general meeting of the Company.

The authority in paragraph (a) of the resolution will allow the Directors to allot new shares and grant rights to subscribe for, or convert other securities into, shares up to an aggregate nominal value of £401,097 (representing approximately one-third (33.33%) of the total issued ordinary share capital of the Company as at 21 November 2019, the latest practicable date prior to publication of this Notice).

The authority in paragraph (b) of the resolution will allow the Directors to allot new shares and grant rights to subscribe for, or convert other securities into, shares only in connection with a rights issue up to an aggregate nominal value of £802,194 (representing approximately two-thirds (66.66%) of the total issued ordinary share capital of the Company as at 21 November 2019, the latest practicable date prior to publication of this Notice (such amount to be reduced by the amount of any relevant securities issued under the authority conferred by paragraph (a) of resolution 15).

Notice of Annual General Meeting continued

for the year ended 30 September 2019

Resolution 16 – Authority to disapply pre-emption rights

16. THAT subject to the passing of resolution 15 above and in accordance with Sections 570 and 573 of the Act, the Directors be and are hereby given power to allot equity securities (within the meaning of Section 560 of the Act) for cash pursuant to the authority conferred by resolution 15 above and to sell ordinary shares (as defined in Section 560(1) of the Act) held by the Company as treasury shares for cash, as if Section 561 of the Act did not apply to any such allotment of equity securities for cash or sale of treasury shares, such power to be limited:

(a) in connection with or pursuant to an offer of, or invitation to acquire, equity securities (but in the case of the authority granted under paragraph (b) of resolution 15, by way of a rights issue only) in favour of holders of ordinary shares in proportion (as nearly as practicable) to the respective number of ordinary shares held by them on the record date for such allotment or sale (and holders of any other class of equity securities entitled to participate therein or if the Directors consider it necessary, as permitted by the rights of those securities) but subject to such exclusions or other arrangements as the Directors may consider necessary or appropriate to deal with fractional entitlements, treasury shares, record dates or legal, regulatory or practical difficulties which may arise under the laws; and

(b) in the case of the authority granted under paragraph (a) of resolution 15 and/or in the case of any sale of treasury shares, (and otherwise than under paragraph (a) of this resolution) up to an aggregate nominal amount of £60,170,

provided that this power shall expire at the conclusion of the Annual General Meeting of the Company to be held in 2021 or at close of business on 30 April 2021 (whichever occurs first), save that the Company may before such expiry make an offer or enter into an agreement which would or might require equity securities to be allotted, or treasury shares to be sold, after such expiry and the Directors may allot equity securities or sell treasury shares in pursuance of such an offer or agreement as if the power conferred hereby had not expired.

Explanatory note

Under Section 561 of the Act, if the Directors wish to allot any of the unissued shares or grant rights over shares or sell treasury shares for cash (other than pursuant to an employee share scheme) they must in the first instance offer them to existing shareholders in proportion to their holdings. There may be occasions, however, when the Directors will need the flexibility to finance business opportunities by the issue of ordinary shares without a pre-emptive offer to existing shareholders. This cannot be done under the Act unless the shareholders have first waived their pre-emption rights.

Resolution 16 asks the shareholders to do this and, apart from rights issues or any other pre-emptive offer concerning equity securities, the authority will be limited to the issue of shares for cash up to a maximum aggregate nominal value of £60,170 (which includes the sale on a non pre-emptive basis of any shares held in treasury), which is equivalent to approximately 5% of the Company's issued ordinary share capital as at 21 November 2019, the latest practicable date prior to publication of this Notice. Shareholders will note that this resolution also relates to treasury shares and will be proposed as a Special Resolution.

This resolution seeks a disapplication of the pre-emption rights on a rights issue so as to allow the Directors to make exclusions or such other arrangements as may be appropriate to resolve legal or practical problems which, for example, might arise with overseas shareholders. If given, the authority will expire at the conclusion of the next Annual General Meeting of the Company in 2021 or, if earlier, 30 April 2021 (the date which is 15 months after the date of passing of the resolution).

The Directors intend to adhere to the provisions in the Pre-Emption Group's Statement of Principles (the 'Statement of Principles') and to not allot shares for cash on a non pre-emptive basis pursuant to the authority in Resolution 16 (i) in excess of an amount equal to 5% of the total issued ordinary share capital of the Company; or (ii) in excess of an amount equal to 7.5% of the total issued ordinary share capital of the Company within a rolling three-year period, without prior consultation with shareholders.

Resolution 17 – Authority to disapply pre-emption rights for the purposes of acquisitions or capital investments

17. THAT subject to the passing of resolutions 15 and 16 above and in addition to the power granted under resolution 16, the Directors be and are hereby given power pursuant to Sections 570 and 573 of the Act to allot equity securities (within the meaning of Section 560 of the Act) for cash pursuant to the authority conferred by resolution 15 above and to sell ordinary shares (as defined in Section 560(1) of the Act) held by the Company as treasury shares for cash, as if Section 561 of the Act did not apply to any such allotment of equity securities for cash and sale of treasury shares, such power to be:

(a) limited to the allotment of equity securities for cash and sale of treasury shares up to an aggregate nominal amount of £60,170; and

(b) used only for the purposes of financing (or refinancing, if the authority is to be used within six months after the original transaction) a transaction which the Directors have determined to be an acquisition or other capital investment of a kind contemplated by the Statement of Principles on Disapplying Pre-Emption Rights most recently published by the Pre-Emption Group prior to the date of this Notice, or for any other purposes as the Company in general meeting may at any time by special resolution determine,

provided that this power shall expire at the conclusion of the Annual General Meeting of the Company to be held in 2021 or at close of business on 30 April 2021 (whichever occurs first), save that the Company may before such expiry make an offer or enter into an agreement which would or might require equity securities to be allotted, or treasury shares to be sold, after such expiry and the Directors may allot equity securities or sell treasury shares in pursuance of such an offer or agreement as if the power conferred hereby had not expired.

Explanatory note

The purpose of resolution 17 is to seek a further power from shareholders to allot equity securities or sell treasury shares for cash otherwise than to existing shareholders pro rata to their holdings to reflect the Statement of Principles for the disapplication of pre-emption rights.

Accordingly, resolution 17 will be proposed as a special resolution to grant such a power. The power will be limited to the allotment of equity securities and sales of treasury shares for cash up to an aggregate nominal value of £60,170, being approximately 5% of the Company's issued ordinary share capital as at 21 November 2019, the latest practicable date prior to publication of this Notice. This is in addition to the 5% referred to in resolution 16. If given, the authority will expire at the conclusion of the next Annual General Meeting of the Company in 2021 or, if earlier, 30 April 2021 (the date which is 15 months after the date of passing of the resolution). The Directors will have due regard to the Statement of Principles in relation to any exercise of this power and in particular they confirm that they intend to use this power only in connection with an acquisition or other capital investment (of a kind contemplated by the Statement of Principles from time to time) which is announced contemporaneously with the announcement of the issue, or which has taken place in the preceding six-month period and is disclosed in the announcement of the issue.

The Directors have no present intention of exercising these powers but believe that this resolution will assist them in taking advantage of business opportunities as they arise.

Resolution 18 – Authority to purchase own shares

18. THAT the Company be generally and unconditionally authorised to make market purchases (within the meaning of Section 693 of the Act) of up to a maximum of 6,017,067 ordinary shares in the capital of the Company, subject to the following conditions:

(a) the minimum price (excluding expenses) which may be paid for an ordinary share is the nominal amount of that share; and

(b) the maximum price which may be paid for an ordinary share so purchased is an amount equal to 5% above the average of the middle market quotations shown for an ordinary share in The London Stock Exchange Daily Official List on the five business days immediately preceding the day on which that ordinary share is purchased.

The authority hereby conferred shall expire at the conclusion of the Annual General Meeting of the Company to be held in 2021, or if earlier 30 April 2021, save that in relation to the purchase of ordinary shares the contract for which is concluded before such date and which would or might be executed wholly or partly on or after such date, the Company may purchase ordinary shares pursuant to any such contract under this authority.

Explanatory note

In certain circumstances, it may be advantageous for the Company to purchase its own shares and resolution 18 seeks the authority from shareholders to continue to do so. The Directors will continue to exercise this power only when, in the light of market conditions prevailing at the time, they believe that the effect of such purchases will be to increase earnings per share and is in the best interests of shareholders generally. Other investment opportunities, appropriate gearing levels and the overall position of the Company will be taken into account when exercising this authority.

Any shares purchased in this way will be cancelled and the number of shares in issue will be reduced accordingly, save that the Company may hold in treasury any of its own shares that it purchases pursuant to the Act and the authority conferred by this resolution. This gives the Company the ability to re-issue treasury shares quickly and cost-effectively and provides the Company with greater flexibility in the management of its capital base.

It also gives the Company the opportunity to satisfy employee share scheme awards with treasury shares. Once held in treasury, the Company is not entitled to exercise any rights, including the right to attend and vote at meetings in respect of the shares. Further, no dividend or other distribution of the Company's assets may be made to the Company in respect of the treasury shares.

The resolution specifies the maximum number of ordinary shares that may be acquired (approximately 10% of the Company's issued ordinary share capital as at 21 November 2019, the latest practicable date prior to publication of this Notice) and the maximum and minimum prices at which they may be bought.

The total number of options to subscribe for ordinary shares that were outstanding at 21 November 2019, the latest practicable date prior to publication of this Notice, was 1,091,606. The proportion of issued share capital that they represented at that time was 1.81% and the proportion of issued share capital that they will represent if the full authority to purchase shares (existing and being sought) is used is 2.02%.

If given, the authority will expire at the conclusion of the next Annual General Meeting of the Company in 2021 or, if earlier, 30 April 2021 (the date which is 15 months after the date of passing of the resolution).

Resolution 19 – Notice of general meetings

19. THAT a general meeting (other than an Annual General Meeting) of the Company may be called on not less than 14 clear days' notice.

Explanatory note

Under the Companies Act 2006, the notice period required for all general meetings of listed companies is 21 days; however, it is possible to reduce this period to 14 days (other than for Annual General Meetings), provided that the following two conditions are met: (i) that a company offers facilities for shareholders to submit proxy appointments by electronic means; and (ii) that there is an annual resolution of shareholders approving the reduction in the minimum notice period from 21 days to 14 days. This resolution would, if passed, allow the Company flexibility to call general meetings, other than Annual General Meetings, on not less than 14 clear days' notice. This additional flexibility would not be used as a matter of routine for such meetings but would be used where the Board considers it appropriate in the circumstances. The approval will be effective until the Company's next Annual General Meeting, at which meeting it is intended to propose a similar resolution for approval.

By order of the Board

Anita Guernari

**Group Legal Counsel
and Company Secretary**

Registered Office:
Bury St. Edmunds
Suffolk
IP32 6NL

10 December 2019

The note on voting procedures and general rights of shareholders, together with explanatory notes on the resolutions to be put to the meeting form part of this notice.

Notice of Annual General Meeting continued

for the year ended 30 September 2019

NOTE ON VOTING PROCEDURES AND GENERAL RIGHTS OF SHAREHOLDERS:

Only those persons entered in the Register of Members of the Company (the Register) as at close of business on 29 January 2020 (the Record Date) shall be entitled to attend or vote at the Annual General Meeting in respect of the number of ordinary shares in the capital of the Company registered in their names at that time. Changes to entries on the Register for certificated or uncertificated shares of the Company after the Record Date shall be disregarded in determining the rights of any person to attend or vote at the Annual General Meeting. Should the Annual General Meeting be adjourned to a time no more than 48 hours after the Record Date, that time will also apply for the purpose of determining the entitlement of members to attend and vote (and for the purpose of determining the number of votes they may cast) at the adjourned Annual General Meeting. Should the Annual General Meeting be adjourned for a longer period, to be so entitled, members must have been entered on the Register by close of business two days prior to the adjourned Annual General Meeting (excluding weekends and public holidays) or, if the Company gives notice of the adjourned Annual General Meeting, at the time specified in such notice.

Voting at the meeting will be conducted by poll rather than on a show of hands, which the Board believes provides a more accurate reflection of shareholder views and takes into account the number of shares held by each member. Those shareholders who are unable to attend the meeting should submit a form of proxy as detailed below. Shareholders attending the meeting may also wish to vote in advance of the meeting by submitting a form of proxy. Members who have done so will not need to vote at the meeting unless they wish to change their vote or the way in which the proxy is instructed to vote.

A member entitled to attend and vote at this meeting may appoint a proxy or proxies to attend and vote instead of him or her. The proxy need not be a member of the Company. Shareholders are requested to complete and submit their proxy appointment online by using the Signal Shares share portal service at www.signalshares.com as soon as possible and, in any event, by no later than 10.30 am on 29 January 2020, being 48 hours before the time appointed for the holding of the Annual General Meeting (or in the case of an adjournment, no later than 48 hours (excluding non-business days) before the time fixed for the holding of the adjourned meeting). To do so, you will need to log in to your Treatt plc Signal Shares account, or register if you have not previously done so. To register you will need your Investor Code, which is detailed on your share certificate or is available from our registrars, Link Asset Services.

Proxy appointments can also be made by completing a paper proxy form and returning it to Link Asset Services in accordance with the instructions printed on the form. If you require a paper proxy form, please contact Link Asset Services by email at enquiries@linkgroup.co.uk or by telephone on 0871 664 0300 if calling from the United Kingdom or +44 371 664 0300 if calling from outside of the United Kingdom. Calls cost 12p per minute plus your phone company's access charge. Calls outside the United Kingdom will be charged at the applicable international rate. Lines are open between 09:00 and 17:30, Monday to Friday excluding public holidays in England and Wales. Completion and return of a form of proxy will not preclude a member from attending and voting in person at the meeting or any adjournment of the meeting.

An abstention option is provided on the form of proxy to enable you to instruct your proxy to abstain on any particular resolution, however, it should be noted that an abstention in this way is not a 'vote' in law and will not be counted in the calculation of the proportion of the votes 'For' and 'Against' a resolution.

CREST members who wish to appoint a proxy or proxies through the CREST electronic proxy appointment service may do so for the Annual General Meeting to be held on 31 January 2020 and any adjournment(s) of the meeting by using the procedures described in the CREST Manual. CREST personal members or other CREST sponsored members, and those CREST members who have appointed a voting service provider(s), should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf. Please note the following:

(a) In order for a proxy appointment or instruction made using the CREST service to be valid, the appropriate CREST message (a 'CREST Proxy Instruction') must be properly authenticated in accordance with Euroclear UK & Ireland Limited's ('EUI') specifications and must contain the information required for such instructions, as described in the CREST Manual. The message, regardless of whether it constitutes the appointment of a proxy or an amendment to the instruction given to a previously appointed proxy must, in order to be valid, be transmitted so as to be received by the issuer's agent (ID RA10) by the latest time(s) for receipt of proxy appointments specified in this notice of the Annual General Meeting. For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp applied to the message by the CREST applications host) from which the issuer's agent is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST. After this time any change of instructions to proxies appointed through CREST should be communicated to the appointee through other means

(b) CREST members and, where applicable, their CREST sponsors or voting service providers should note that EUI does not make available special procedures in CREST for any particular messages. Normal system timings and limitations will therefore apply in relation to the input of CREST Proxy Instructions. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST personal member or sponsored member or has appointed a voting service provider(s), to procure that his CREST sponsor or voting service provider(s) take(s)) such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this connection, CREST members and, where applicable, their CREST sponsors or voting service providers are referred in particular to those sections of the CREST Manual concerning practical limitations of the CREST system and timings.

(c) The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in regulation 35(5)(a) of the Uncertificated Securities Regulations 2001.

Members may change proxy instructions by submitting a new proxy appointment using the methods set out above. Note that the cut-off time for receipt of proxy appointments also apply in relation to amended instructions; any amended proxy appointment received after the relevant cut-off time will be disregarded.

The right to appoint a proxy does not apply to persons whose shares are held on their behalf by another person and who have been nominated to receive communications from the Company in accordance with section 146 of the Companies Act 2006 ('nominated persons'). Nominated persons may have a right under an agreement with the registered shareholder who holds the shares on their behalf to be appointed (or to have someone else appointed) as a proxy. Alternatively, if nominated persons do not have such a right, or do not wish to exercise it, they may have a right under such an agreement to give instructions to the person holding the shares as to the exercise of voting rights.

A member of the Company which is a corporation may authorise a person or persons to act as its representative(s) at the Annual General Meeting. In accordance with the provisions of the Companies Act 2006 (as amended by the Companies (Shareholders' Rights) Regulations 2009), each such representative may exercise (on behalf of the corporation) the same powers as the corporation could exercise if it were an individual member of the Company, provided that they do not do so in relation to the same shares. It is therefore no longer necessary to nominate a designated corporate representative.

Pursuant to Section 319A of the Companies Act 2006, the Company must cause to be answered at the Annual General Meeting any question relating to the business being dealt with at the Annual General Meeting which is put by a member attending the meeting, except in certain circumstances, including if it is undesirable in the interests of the Company or the good order of the meeting that the question be answered or if to do so would involve the disclosure of confidential information.

Members satisfying the thresholds in Section 338 of the Companies Act 2006 may require the Company to give, to members of the Company entitled to receive notice of the Annual General Meeting, notice of a resolution which those members intend to move (and which may properly be moved) at the Annual General Meeting. A resolution may properly be moved at the Annual General Meeting unless (i) it would, if passed, be ineffective (whether by reason of any inconsistency with any enactment or the Company's constitution or otherwise); (ii) it is defamatory of any person; or (iii) it is frivolous or vexatious. The business which may be dealt with at the Annual General Meeting includes a resolution circulated pursuant to this right. A request made pursuant to this right may be in hard copy or electronic form, must identify the resolution of which notice is to be given, must be authenticated by the person(s) making it and must be received by the Company no later than six weeks before the date of the Annual General Meeting.

Members satisfying the thresholds in Section 338A of the Companies Act 2006 may request the Company to include in the business to be dealt with at the Annual Meeting any matter (other than a proposed resolution) which may properly be included in the business at the Annual General Meeting. A matter may properly be included in the business at the Annual General Meeting unless (i) it is defamatory of any person or (ii) it is frivolous or vexatious. A request made pursuant to this right may be in hard copy or electronic form, must identify the matter to be included in the business, must be accompanied by a statement setting out the grounds for the request, must be authenticated by the person(s) making it and must be received by the Company no later than six weeks before the date of the Annual General Meeting.

In accordance with Section 311A of the Companies Act 2006, the contents of this notice of meeting details the total number of shares in respect of which members are entitled to exercise voting rights at the Annual General Meeting, the total voting rights members are entitled to exercise at the Annual General Meeting and, if applicable, any members' statements, members' resolutions or members' matters of business received by the Company after the date of this notice will be available on the Company's website www.treatt.com.

As at 21 November 2019 the Company's issued share capital consists of 60,170,670 ordinary shares. The total number of voting rights in the Company as at 21 November 2019 (the latest practicable date prior to publication of this Notice) is 59,210,383.

A statement of Directors' share transactions and copies of their service contracts and the letters of appointment of the Non-executive Directors are available for inspection during usual business hours at the registered office of the Company from the date of this notice until the date of the Annual General Meeting (Saturdays, Sundays and public holidays excluded) and will be available at the place of the meeting for fifteen minutes prior to and during the meeting.

Except as provided above, members who wish to communicate with the Company in relation to the meeting should do so using the following means:

Calling the Company Secretary on +44 1284 702500;

Emailing the Company Secretary on cosec@treatt.com; or

Writing to: The Company Secretary, Treatt plc, Northern Way, Bury St. Edmunds, Suffolk, IP32 6NL.

Parent Company Information and Advisors

Directors

Tim Jones
(Chairman and Non-executive Director)

Daemmon Reeve
(Chief Executive Officer)

Richard Hope
(Chief Financial Officer)

Jeff Iliffe
(Non-executive Director)

Richard Illek
(Non-executive Director)

David Johnston
(Senior Independent Non-executive Director)

Yetunde Hofmann
(Non-executive Director – from 20 March 2019)

Lynne Weedall
(Non-executive Director – from 6 April 2019)

Anita Haines
(Non-executive Director – until 26 January 2019)

Company Secretary

Anita Guernari

Registered Office

Northern Way, Bury St. Edmunds,
Suffolk, IP32 6NL

Tel: + 44 (0) 1284 702500

Email: cosec@treatt.com

Website

www.treatt.com

Registered Number

01568937

Audit Committee

Jeff Iliffe
(Chairman)

David Johnston

Tim Jones

Yetunde Hofmann

Remuneration Committee

David Johnston
(Chairman)

Jeff Iliffe

Yetunde Hofmann

Lynne Weedall

Nomination Committee

Tim Jones
(Chairman)

Daemmon Reeve

Richard Illek

Lynne Weedall

Yetunde Hofmann

Brokers

Investec Bank plc
30 Gresham Street, London, EC2V 7QP

Public Relations

DRD Partnership
35 King Street, London, WC2E 8JG

Auditors

RSM UK Audit LLP
Abbotsgate House, Hollow Road,
Bury St. Edmunds, Suffolk, IP32 7FA

Tax Advisors

KPMG LLP
Botanic House, 98–100 Hills Road,
Cambridge, CB2 1JZ

Crowe Howarth LLP
124 South Florida Avenue, Suite 201, Lakeland,
Florida 33801–4629

Solicitors

Greene and Greene
80 Guildhall Street, Bury St. Edmunds,
Suffolk, IP33 1QB

Bankers

HSBC Bank plc
140 Leadenhall Street, London, EC3V 4PS

Lloyds Banking Group
Black Horse House, Castle Park,
Cambridge, CB3 0AR

Bank of America
5th Floor, 101 E. Kennedy Boulevard,
Tampa, FL 33602

Registrars

Link Asset Services
The Registry, 34 Beckenham Road,
Beckenham, Kent, BR3 4TU

Share Price

Treatt plc's share price is available on
www.ft.com

Annual and interim reports are available
on the Group's website
www.treatt.com

Financial Calendar

2019/20

Financial year ended	30 September 2019
Results for year announced	26 November 2019
Annual Report and Financial Statements published	10 December 2019
Annual General Meeting	31 January 2020
Final dividend for 2019 goes "ex-dividend"	6 February 2020
Record date for 2019 final dividend	7 February 2020
Last day for dividend reinvestment plan election	27 February 2020
Final dividend for 2019 paid	19 March 2020

2020/21

Interim results to 31 March 2020 announced	12 May 2020[1]
Interim dividend for 2020 goes "ex-dividend"	2 July 2020[1]
Record date for 2020 interim dividend	3 July 2020[1]
Last day for dividend reinvestment plan election	23 July 2020[1]
Interim dividend for 2020 paid	13 August 2020[1]
Financial year ended	30 September 2020
Results for year to 30 September 2020 announced	24 November 2020[1]
Final dividend for 2020 paid	18 March 2021[1]

1 These dates are provisional and may be subject to change.

WORLD LAND TRUST™
www.carbonbalancedpaper.com
CBP001876

Carbon Balancing by the World Land Trust tackles climate change through projects that both offset carbon dioxide (CO_2) emissions and conserve biodiversity.

Designed and produced by emperor
Visit us at emperor.works

Treatt plc

Northern Way, Bury St. Edmunds, Suffolk, IP32 6NL

www.treatt.com

cosec@treatt.com

+ 44 (0) 1284 702500