SPRUE AEGIS

**26 April 2016**

# Sprue Aegis plc
# ("Sprue", the "Company" or the "Group")

## AUDITED FINAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2015

Sprue designs and sells innovative smoke and carbon monoxide ("CO") alarms and other safety related products and accessories and is one of Europe's largest suppliers of such, selling products under its distinct brands of FireAngel, AngelEye, SONA, FireAngel Pro and Pace Sensors based on its own CO and smoke sensing and wireless technology. Sprue is also the exclusive European distributor of the brands of BRK Brands Europe Limited ("BRK Brands") namely First Alert, BRK and Dicon. Sprue is pleased to announce its audited final results for the year ended 31 December 2015.

## Financial highlights

- Record revenue up 35% to £88.3m (2014: £65.6m) and up 45% at constant FX with 2014
  - An increase in sales into France was the key driver of the overall 35% increase in European sales although sales into France in H2 declined considerably more than was expected
  - UK sales increased by 32% year-on-year largely due to higher CO detector sales following the introduction of private landlord legislation and increased marketing activity. Utilities, Trade and Retail all reported record sales; UK Fire & Rescue Service sales were helped by £2.9m of funding provided by the Department for Communities and Local Government ("DCLG")
- 2015 results include an exceptional warranty charge of £5.5m (2014: £nil) to address the recently identified issue in certain batteries provided by a third party supplier that may cause a premature low battery warning chirp in certain smoke alarm models sold in the UK and in Continental Europe. The cash cost of dealing with this issue is expected to be incurred over the next six years
- Operating profit* increased to £12.8m (2014: £10.4m) and at constant FX with 2014 would have been £20.4m, up 96% on 2014; operating profit pre-share based payments charge but post-exceptionals reduced to £7.3m (2014: £9.8m)
- Adjusted basic EPS* increased 27% to 24.3p per share (2014: 19.2p per share); basic EPS post share-based payments charge and exceptional items reduced to 13.2p per share (2014: 17.6p per share)
- GM% before BRK distribution fee ("BRK DF") and £5.5m exceptional warranty charge declined from 36.4% to 30.3% due to:
  - the adverse impact of Sterling movements (against Euro and USD mainly);
  - £1.5m increase in DTL product costs (DTL sources products from the CICAM factory); and
  - £1.2m increase in the charge for other legacy BRK and Sprue product warranty issues
- ROS%* reduced slightly to 14.5% (2014: 15.8%)
- Net cash flow from operations was significant at £13.6m (2014: £8.8m), helped by better DTL credit terms from April 2015
- Net cash of £22.4m at year end (2014: net cash £15.9m) and no debt
- Gross profit on the sale of BRK products, excluding France, reduced to circa £6.0m (2014: £6.5m), still ahead of the BRK DF of £3.5m (2014: £4.2m)
- Board recommends payment of a final dividend of 5.5p per share (2014: 6.0p per share), an 8% decrease, making a total 2015 dividend payable of 8.0p per share, the same as 2014

## Operational highlights

- AngelEye was the market leader in the French DIY sector in November/December 2015 with 24.6% market share, per published February 2016 Gfk market data
- Project Shout, Sprue's CO awareness campaign created in-house to utilise digital and TV channels, resonated with UK retailers and consumers resulting in a significant step change in performance (UK CO sales + 43% YoY)
- New range of mains powered Trade products branded "SONA" to UK Trade was delayed by production set up issues for 12 months but went into full volume production in December 2015
- CICAM's production relocated to a nearby facility ahead of plan and without impact to product availability; the incremental buffer stock acquired by Sprue will be sold over the next 12 months
- Structural changes implemented across the Company to ensure alignment and delivery of the 5 year strategic plan

Graham Whitworth, **Executive Chairman** commented: *"I apologise to all stakeholders for the impact the recently announced battery warranty issue is having and wish to reassure all customers that we will meet all of our customer service obligations to replace products that exhibit a premature end of life battery warning. We have included in these financial results what we consider to be a conservative assessment of the potential liability and we will trade our way through the potential disruption and will support our customers. We have introduced additional screening processes on the production line at CICAM, our principal supplier, prior to the battery being fitted into finished smoke alarms to prevent this issue happening again.*

*The Group reported a robust operating profit* of £12.8m (£10.4m) on record sales of £88.3m (2014: £65.6m). It is hugely disappointing that our results have been overshadowed by the battery warranty issue which was only discovered recently. With new product certifications underway already and sales into Germany expected to recover strongly, we expect to build momentum in trading in the second half of 2016 and into 2017."*

**Stated before exceptional items representing £5.5m warranty charge (2014: exceptional AIM costs of £0.5m) and share-based payments charge of £0.5m (2014: £0.2m)*

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## Notes to Editors

### About Sprue Aegis plc

Sprue's mission is to protect, save and improve our customers' lives by making innovative, leading edge technology simple and accessible.

Sprue is one of the market leaders in the European home safety products market and is now launching its own connected homes product proposition. Its principal products are smoke alarms, CO alarms and accessories and the Group has an extensive portfolio of patented intellectual property. Sprue has patented its technology in Europe, the US and other selected territories.

The introduction of new technologically advanced products and new safety products legislation in the UK and in Europe, and increasing levels of awareness of the dangers of smoke and CO, continue to drive sales.

Sprue manufactures CO sensors at its subsidiary, Pace Sensors for use in its CO alarms. All other manufacturing and product assembly is outsourced to two principal third party contract manufacturers in China, one of which is Jarden Corporation which owns 23.4% of the Company's issued share capital and Pace Technology which is independent from Jarden Corporation.

Sprue enjoys a leading sales footprint in UK Retail and the UK's Fire & Rescue Services ("UK F&RS"). The Group also supplies the UK's Utility sector which includes customers such as British Gas and Scottish Gas and has a well-established but relatively low market share of the UK Trade sector. Sprue has significant sales into Continental Europe mainly selling through a network of independently owned third party distributors.

The Group has won a number of prestigious Sunday Times Virgin *Fast Track 100* Awards, which recognises the 100 fastest growing companies in the UK. Sprue's head office is in Coventry and it has a second office in Gloucester. Distribution centres are located in Cambridge and Gloucester.

Sprue's range of products is comprehensive, allowing the Group to tailor the range of smoke alarms, CO alarms and accessories to suit its customer needs at various price points under the following brands:

- **FireAngel.** A market-leading and innovative battery operated range of smoke and CO alarms principally targeted at UK Retail and UK F&RS
- **AngelEye.** Launched in 2012, Sprue sells smoke alarms and CO detectors principally into the French market under the AngelEye brand which has become a leading brand targeted at the DIY channel in France
- **SONA.** A new, low power consumption mains-powered range of smoke and heat alarm products plus CO detection that are market leading and which can be wirelessly interconnected with up to 50 products on a single network
- **FireAngel Pro.** Mains-powered smoke alarm with a 10 year, sealed for life lithium battery back-up. Modern design, quick fitting, tamper-proof mounting plate which locks the alarm head securely in place.
- **Pace Sensors.** CO sensors used within Sprue's CO products are developed by Sprue and Pace Sensors, Sprue's wholly owned subsidiary in Canada. Pace Sensors' CO sensors are used within all FireAngel, AngelEye and Pace Sensors CO detectors and certain First Alert branded CO detectors

**Sprue is the exclusive European distributor for BRK Brands Europe Limited,** (a subsidiary of Jarden Corporation) in Europe namely, First Alert, BRK and Dicon. First Alert is one of the leading safety products brands in North America.

*For further product information, please visit: www.sprue.com.*

# Chairman's Statement

## Overview

Whilst 2015 was a record year of sales for Sprue, it was overshadowed by the announcement released on 18 April 2016 of a significantly increased warranty provision which is hugely disappointing for the Company and all stakeholders. This is due to a percentage of certain smoke alarm products indicating a premature end of life battery warning chirp resulting in an additional £5.5m warranty charge which the Group has booked to cover the expected cost of dealing with the issue over the next six years. I wish to reassure our customers that we will continue to meet our customer service obligations and we have very much appreciated those messages of support received. The Board is keen to stress that this is not a safety critical issue**.** Further details on the battery warranty issue are set out below.

Strong sales into France and record trading within the UK combined to help generate the highest ever annual Group sales, up 35% to £88.3m, and operating profit before £5.5m exceptional charge and £0.5m share based payments charge increased 23% to £12.8m (2014: £10.4m ).

Despite the warranty issue which we are addressing, I am pleased with the new strategic plan which Neil Smith, Sprue's CEO, has led from inception since joining the Group in February 2015. The strategic plan was approved by the Board in H2 2015, from which we are already seeing significant results.

Traditionally Sprue has had a low market share in the UK Trade sector, primarily selling the BRK mains powered range. The introduction of our new SONA range represents an exciting new growth opportunity for Sprue as we start to sell the range of mains powered SONA branded smoke and heat alarms along with carbon monoxide alarms and accessories designed specifically for the UK Trade market. These products and accessories went into full production in December 2015. SONA, which incorporates Sprue's own Thermoptek, Thermistek and Wi-Safe 2 technology has unique patented energy saving technology. Over time, we expect to secure a greater market share of the UK Trade sector with this exciting new range of market leading mains powered products.

Throughout 2015, we have sought to strengthen the Coventry based Technical team and, in particular, our firmware capability, increasing the Technical headcount from 15 to 24. In 2015, we invested in approximately £0.3m of specialist test equipment to accelerate our time to market for new products by being able to replicate many of the third party tests performed by the certification bodies in-house as part of our own in-house product development.

## Exceptional £5.5m charge for battery warranty issue

On 18 April 2016, the Company announced that it had recently identified an issue in certain batteries supplied by a third party supplier that may cause a premature low battery warning chirp in certain of its smoke alarm models sold in the UK and in Continental Europe.

As a result, to support the Company's customer service obligations, the Board has increased the Group's warranty provision as at 31 December 2015 by £5.5m to £6.8m (2014: £0.9m). The cash cost of dealing with this issue is expected to be incurred over the next six years. As at 31 December 2015, the Company had cash of £22.4m and no debt.

I am deeply disappointed about the impact this third party component issue is having and I wish to reassure customers and all stakeholders that the quality of all of our products is of the utmost importance to the Company. The failure mode in the battery in affected smoke alarms has only recently become apparent and typically occurs after around three years from the date of battery manufacture. To prevent the issue happening in the future and to ensure all the Group's smoke products perform to the highest standards, the Group has introduced additional screening processes on the production line at CICAM, its principal supplier, prior to the battery being fitted into finished smoke alarms.

**Review of product warranty**

The Group provides a warranty on the entire product including the battery which is typically between one and ten years in duration. The Board believes that Sprue's product warranty policies are generally in line with UK and European smoke/CO industry "norms". However, in light of the battery warranty issues recently identified, the Group is reviewing its warranty policies.

More extensive testing of product returns is to be introduced to reduce the number of free of charge replacement products issued to customers. Where products are found to have "no fault found", the Group will restrict free of charge replacement products. This review has just commenced and although the work is not complete, the Board expects to be able to reduce the Group's future warranty costs.

**Board changes during the year**

There have been a number of Board changes during 2015 which have been made principally to support the business in the next phase of its growth and to comply with the principles of sound corporate governance. In accordance with the commitment made in the Company's admission document published in connection with the Company's admission to AIM in 2014, I relinquished the role of Group Chief Executive on 2 February 2015 on the appointment of Neil Smith as Group Chief Executive. Neil was appointed to the Board at the Company's AGM in June 2015. I remain Executive Chairman of the Company.

As announced in April 2015, I am delighted that John Shepherd has joined the Board as a Non-Executive Director. John has held a number of senior positions in technology companies, including Non-Executive Chairman and Chief Executive.

After 15 years on the Board, Peter Lawrence retired at the Company's AGM in 2015. We wish Peter well for the future and thank him for his commitment and contribution to Sprue.

Early last year, Nick Rutter's role as Managing Director was reshaped to allow him more time to focus on innovation and emerging technologies and on the delivery of our core technology to keep Sprue at the forefront of our current and potential new markets by optimising our future product and service offerings.

**Relocation of CICAM's manufacturing**

I would like to thank BRK for successfully moving CICAM's production to a new facility ahead of schedule and for ensuring that the certification of the new facility was seamless. In July 2015, the Board decided to acquire around £7.0m of additional buffer stock ahead of the year end to mitigate against potential supply disruption which I am pleased to report was ultimately not needed. We expect to sell this buffer stock over the next twelve months.

**New supply terms with DTL post year end**

Agreed in March 2016, but with effect from 1 January 2016, supply arrangements with DTL (which buys Sprue's products from CICAM) supplying 100% of Sprue's own smoke products and accessories and BRK's smoke and CO products were revised. For the duration of the manufacturing agreement (which has a rolling 12 months' notice period), the parties have agreed to an annual volume and GBP/USD exchange rate rebate mechanism.

Should Sterling strengthen against the US Dollar and/or production volumes increase from the expected level in 2016, Sprue will benefit through reduced product costs and vice versa. In addition, Sprue and DTL have agreed to work together to seek to balance the loading of CICAM to improve the operational efficiency of the facility by smoothing out production. This will result in an increase in Sprue's stock in certain months of the year, but stock at the year end is not likely to be materially affected.

Despite the significant product on-cost for the Group in 2016 to implement the new arrangement, this is an important agreement for the Group with its key supplier DTL. The new terms allow Sprue to share equitably the impact of changes in production volumes and movements in the GBP/US Dollar exchange rate with DTL whilst ensuring its key supplier has sufficient capacity and the appropriate investment base from which to deliver the products to support Sprue's strategic plan.

**Dividend**

Despite the reduction in distributable reserves as a result of the additional charge for expected warranty costs, subject to shareholder approval at the Company's AGM, the Board recommends the payment of a final dividend for the year ended 31 December 2015 of 5.5p per share which when added to the interim dividend of 2.5p per share gives a total dividend unchanged on last year's. The total 2015 dividend is 1.6x covered by post tax profit (2014: 2.2x). Subject to shareholder approval at the Company's Annual General Meeting to be held on 30 June 2016, the final dividend will be paid on 22 July 2016 to shareholders on the register on 8 July 2016.

**Outlook**

As the Company announced on 18 April 2016, challenging trading conditions in France, principally due to overstocking, and weaker sales in Germany, due to product certification delays are likely to significantly adversely impact the Group's expected results for this year.

Subject to no major changes in exchange rates, the Board now expects:

- sales and operating profit* in 2016 of circa £55.0m and £1.9m respectively;
- H1 2016 operating loss* of approximately £1.9m which includes a restructuring charge of £0.2m as a result of reducing certain fixed overheads; and
- an operating profit* in H2 2016 of approximately £3.8m

We expect to rebuild trading momentum in the second half of 2016 with certified new products and enter 2017 with normal levels of trading.

Whilst regrettable, the overhead reductions will put the Group onto a lower cost base, saving an estimated £0.8m in 2017, and keep the Group on the right course to deliver our longer term strategic objectives as set out last year by Neil Smith, the Group's CEO. The Board's priority remains to continue to improve the operational and financial performance of the Group and deliver value for our customers and shareholders.

We expect to strengthen our product portfolio with SONA now selling in the market, Nano being included in finished 7 year CO products, entry into new smoke and CO markets in H2 2016 and the launch of our exciting new connected homes strategy.

As we rebuild confidence in our products in Germany and put the brand damage behind us with new certified products, we expect to increase sales significantly into Germany in H2 2016 and into 2017 with 10 million German homes required by law to install smoke alarms by the end of 2017.

CO detector sales are a key part of the strategic plan to drive revenue in emerging markets which will also help boost production volumes at Pace Sensors and improve our gross margin.

**Stated before share-based payments charge*

Graham Whitworth
**Executive Chairman**

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## Group Chief Executive's Statement

### Introduction

I share the disappointment and dissatisfaction of shareholders and colleagues in the discovery of the battery issue within certain smoke alarms and, along with my Board colleagues, will take the necessary learnings and implement the required changes to ensure no future repetition.

The warranty issue has unfortunately, though understandably, overshadowed our 2015 results. However, since joining the business last year, it is clear we have a talented and committed team at Sprue with exciting new products and marketing campaigns which have been recognised by our customers in their purchase decisions and our resultant record year of revenue.

We have an authentic and important purpose – to protect, save and improve our customers' lives by making innovative, leading edge technology simple and accessible, with strong values which run through our entire business with a shared culture of continuous improvement benefitting Sprue's customers and shareholders.

We have a clear future growth strategy built upon:

- Increasing sales within existing markets through our strong brand portfolio and new technology
- Incremental growth through new European markets
- New product launches
- Accelerating our Connected Home proposition
- Leading through best ever quality, service & availability

In supporting our new purpose and strategy, we have made good progress in implementing the necessary changes to deliver continued growth, including:

- A new, strengthened organisational structure with new talent joining the team and expanded opportunities for existing colleagues to maximise their potential through a new people plan
- The creation of a new business unit with focussed expertise to launch our Connected Home proposition
- A new product road map which ensures we are focused on delivering solutions which have the greatest benefit to our customers and shareholders
- A marketing strategy with increased emphasis on digital and own brand product development as demonstrated through our successful "Project Shout" campaign
- A new financial reporting regime utilising our existing strong IT infrastructure

A strong balance sheet provides the platform for growth as we seek to operate with focus to develop and launch new products on time to the highest quality and with an enhanced service proposition.

We remain focused on driving the productivity loop to leverage our operating expense. The most important way to deliver against this objective is to increase sales, but we are also driving process improvements combined with capital discipline and efficiency to ensure we operate effectively.

The strategic plan is being delivered through organic growth rather than acquisition. However, acquisition opportunities continue to be under review to establish whether Sprue's technology and product offering could be enhanced through a strategic purchase to accelerate incremental revenue, profit opportunities and thereby increase shareholder value. Strict financial and commercial justification criteria will be applied to any acquisition, prior to it being approved by the Board.

European home safety is an attractive and growing market and as an established and trusted brand leader, with the actions we are taking, I am excited at the opportunities ahead and growth potential as we implement our plans.

***Legislative and advertising drivers***

**UK**. The fitting of domestic smoke alarms in homes has been a key factor in the continuing reduction in house fires, fire-related injuries and deaths in the UK. In the last 10 years in the UK, there has been a 63% reduction in house fires and fire deaths are at an all-time low according to Government published statistics.

In 2015, the Energy Act 2013 came into force which requires all private sector landlords in England and Scotland to install a smoke alarm on every floor of their property, a carbon monoxide alarm to be installed in those properties which burn solid fuels and for landlords to check that alarms are working at the start of every new tenancy. The enforcing body will be the local council and the regulations allow penalties of up to £5,000 per property to be imposed. The Company sees this as another important step towards increasing awareness of the dangers of smoke and CO in the home.

Sprue promoted through its websites and on TV channels during last year, "Project Shout", an advertising campaign designed to encourage action to protect against the dangers of CO. The campaign generated significant amounts of publicity across various media channels, including national TV coverage and social media which significantly increased CO sales in Retail by 75% compared with the previous year.

**Germany**. The smoke alarm legislation in Germany which is already in place in Nordrhein-Westfalen and Bayern (Rauchmeldegesetz ab 01.04.2013 and Bayerische Bauordnung Art. 46 Abs. 4 BayBO) requires smoke alarms to be fitted in every bedroom, children's room and hallway by 31 December 2016 and 31 December 2017 respectively. In addition, the ten year replacement cycle of smoke alarms previously installed from 2006 is about to commence which offers additional revenue opportunities with increased level of technology and higher local currency replacement product prices.

**France**. Legislation requiring smoke alarms to be fitted in every home in France has had a significant impact on Sprue's revenue and increased awareness of the dangers of fire and smoke. The Group expects further new legislation will be announced in other parts of Europe as governments seek to improve home safety. This is expected to continue to drive sales, in particular CO products, where market penetration levels in countries such as France and Germany are still significantly lower than smoke alarms.

***Technical review***

Sprue has launched a new fully certified range of mains-powered SONA branded smoke and heat alarms along with carbon monoxide alarms and accessories for the UK Trade sector which includes a remote test and reset product. SONA provides a technology advantage over competitor products especially with its market leading low power consumption, which is particularly important for new "sustainable" housing projects. Customer feedback to date is highly positive and full scale production of this range of products commenced in December 2015.

Sprue continues to invest in its Connected Homes Solutions ("CHS") business unit and will shortly be connecting a wider range of its products through its interface gateway technology to the internet. At the same time, Sprue is expanding and enhancing the skills of its Technical team, which increased from 15 to 24 engineers over the course of the year, to accelerate product development.

Based on our research, sales opportunities from CHS appear significant. To bring greater certainty and accountability to our CHS proposition, we have formed a new business unit to focus on this opportunity. In January 2016, Sprue prepaid £0.45m for a number of user licences to support its connected homes business proposition and is continuing to work closely with its third party supplier to develop and enhance bespoke software for its own commercial needs and those of its customers.

We are pleased that the Nano-905 CO sensor is finally being fitted into finished 7 year life carbon monoxide detectors and we expect further growth in CO detector sales across Europe.

By the end of 2016, consistent with our new five year strategy, we expect to enter a number of new markets, including the Nordic countries, Poland and the German Retail market.

I look forward to working with my Board colleagues and everyone at Sprue to take the business onto its next phase of development. We are committed to working through the issues that have been created by the premature end of life battery warning chirping and we will honour all of our customer service commitments. This will be a challenging period for the business but I am confident that we will get through it, and ultimately continue to thrive.

**Neil Smith**
**Group Chief Executive**

# Financial Report

## Summary

Revenue for 2015 increased by 35% to £88.3m (2014: £65.6m) helped by the £13.8m increase in sales into Continental Europe, largely due to growth in sales into France. Total sales in the UK increased by 32% largely due to higher CO sales with sales by every business unit up on 2014.

As outlined further in note 7, the 2015 results include an exceptional warranty charge of £5.5m (2014: exceptional AIM costs of £0.5m).

In total, the Group had warranty provisions as at 31 December 2015 of £6.8m (2014: £0.9m) of which, the largest element relates to the expected cost of replacing smoke alarm products over the next six years where an issue in certain batteries supplied by a third party supplier may cause a premature low battery warning chirp. The smoke alarms affected have been sold in the UK and in Continental Europe.

Operating profit* increased by 23.1% to £12.8m (2014: £10.4m) whilst return on sales* decreased slightly to 14.5% (2014: 15.8%). At like-for-like exchange rates with the previous year, operating profit* would have been approximately £7.6m higher at £20.4m.

With a key focus on cash generation to optimise working capital, the Group's year end cash increased by £6.5m to £22.4m (2014: £15.9m). The balance sheet remains strong with no debt.

## Revenue by business unit

The table below summarises the reported revenue for each of the Group's business units and Pace Sensors. At like-for-like exchange rates with 2014, the Sterling value of European revenue in 2015 would have been approximately 12% or £6.5m higher than reported.

| **Revenue from continuing operations** | % Change | Change £000 | **2015 Revenue £000** | 2014 Revenue £000 |
|---|---|---|---|---|
| Business Units: | | | | |
| Europe | 35 | 13,831 | **53,781** | 39,950 |
| Trade | 21 | 1,247 | **7,287** | 6,040 |
| Retail* | 37 | 3,781 | **13,932** | 10,151 |
| Fire & Rescue Services | 29 | 1,742 | **7,823** | 6,081 |
| Utilities* | 55 | 908 | **2,572** | 1,664 |
| Pace Sensors Limited | 69 | 1,194 | **2,908** | 1,714 |
| **Total revenue from external customers** | 35 | 22,703 | **88,303** | 65,600 |

*Note* in 2015, certain Leisure accounts were transferred into the Retail business unit and therefore, we have restated the 2014 Retail comparative which increased by £0.4m and the Utilities comparative which decreased by £0.4m*

The principal changes in revenue are as follows:

- The Group benefitted from significant smoke alarm sales into France following the legal requirement for all domestic homes to fit at least one working smoke alarm
- Strong growth in CO detector sales by all UK business units. CO market penetration levels in France and Germany in particular remain very low compared to the UK as the markets are less mature which remains an opportunity for Sprue
- Sales of the Group's new SONA range have now commenced and initial signs are relatively encouraging
- Sales in 2015 of CO sensors by Pace Sensors increased by 38% and were helped by higher CO detector sales through each UK business unit

### Gross margin

Gross margin (before taking account of the fixed £3.5m BRK distribution fee and the exceptional £5.5m warranty charge) decreased to 30.3% (2014: 36.4%). The reduction in gross margin reflected the significant net adverse impact of the strength of Sterling against the Euro affecting the translation of Euro income into Sterling, Sterling's weakness against the US Dollar increasing US Dollar sourced product costs and £1.5m product cost increase from DTL. In addition, an increase in the charge for other legacy warranty issues of £1.2m to £2.8m (2014: £1.6m) also impeded gross margin.

### Exchange rates

Average month end exchange rates against Sterling are summarised below.

| | Ave for year | | Ave for H1 | | Ave for H2 | |
|---|---|---|---|---|---|---|
| | **2015** | 2014 | **2015** | 2014 | **2015** | 2014 |
| Euro | **1.38** | 1.24 | **1.36** | 1.22 | **1.39** | 1.27 |
| US Dollar | **1.53** | 1.64 | **1.52** | 1.67 | **1.53** | 1.62 |
| Canadian $ | **1.95** | 1.82 | **1.89** | 1.81 | **2.02** | 1.82 |

This table shows that on average, in 2015, Sterling strengthened against the Euro by 11%, thereby reducing Sprue's revenue and profit on its Euro denominated income, and weakened against the US Dollar by 7% increasing the Sterling equivalent of Sprue's USD purchases. In 2015, Sterling also strengthened by approximately 7% against the Canadian Dollar although the net adverse financial impact on Group profit was not material.

The impact of the movement between Sterling and the USD on the Group in 2015 was far less significant than the movement between Sterling and the Euro as the Group purchased a significant proportion of its product costs (all DTL products) in Sterling. This has changed with effect from 1 January 2016 as the Group is now effectively sharing the impact of movements in the exchange rate between Sterling and the US Dollar with its key supplier, DTL, despite continuing to purchase in Sterling. All the Group's CO detector requirements continue to be sourced in US Dollars from a third party supplier.

### Total fixed costs

Total fixed costs* as a percentage of sales in 2015 reduced to 11.9% (2014: 14.3%), slightly below the Group's target fixed costs range of 12-15% of sales. However, the Board will continue to invest for growth, even if the total fixed costs target range is not achieved in the short term.

As a result of the £5.5m exceptional warranty charge, the 2015 year end bonus was not payable saving £0.7m which was added back to profit in the year.

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### Earnings and tax

Adjusted basic EPS* increased by 27% to 24.3 pence per share (2014: 19.2 pence per share).

Excluding deferred tax and the impact of the exceptional items, the effective cash tax rate decreased from 16.8% in 2014 to 7.3% in 2015 due to the benefit of Patent Box, higher R&D tax credit rates (as Sprue is again a “small” company for tax purposes) and a 1% reduction in the rate of corporation tax in the UK from 1 April 2015.

We are aware that there continue to be ongoing challenges by certain Continental European states to the fairness of Patent Box although we have been advised that for companies already in, Patent Box is “here to stay for the foreseeable future”. The benefit of Patent Box in the tax charge in 2015 reduced to approximately £0.1m (2014: £0.2m) as the taxable profit was lower than the 2014 comparative.

**Stated before exceptional items representing £5.5m warranty charge (2014: £0.5m AIM costs) and share-based payments charge £0.5m (2014: £0.2m)*

### Balance sheet and cash flow

Sprue continues to increase its investment in product development and capitalises specific people and non-people costs which meet the relevant criteria. Product development costs are typically amortised over a period of 7 to 10 years and reviewed periodically for impairment. We have reviewed the intangible assets as a result of the recently announced battery warranty issue and have concluded that there are no impairment issues that affect the intangible asset base.

The net book value of intangible capitalised product development costs at 31 December 2015 was £6.4m (2014: £4.3m), equivalent to 7.2% of sales (2014: 6.6% of sales).

The annual amortisation charge is expected to increase significantly as capitalised costs for Nano-905, SONA and other new products are amortised through the income statement as sales of products including this technology commence.

Net working capital as a percentage of annualised sales improved materially in 2015 to 8.0% of sales (2014: 11.6% of sales), despite high stock holding levels to offset the risk of moving the manufacturing activities of CICAM before the year end. Overall, net working capital decreased by £0.5m compared to 2014 despite sales increasing in the year by 35%. Whilst there have been no major supply chain issues from the relocation of CICAM last year, the Board believed it was a prudent decision to increase year end stock to mitigate against such potential risk.

Cash generation continues to be a key objective for the Group and management regularly reviews the stock requirements of each business unit to optimise the Group’s stock holding. It is expected to take around 12 months to sell through the approximate £7.0m of additional buffer stock acquired last year.

The significant reduction in total debtors year on year reflects the lower Q4 2015 sales compared to the last three months of 2014, largely due to the reduction of sales into France. Average debtor days in 2015 increased to 67 days (2014: 54 days), as one of Sprue's principal customers in France took extended terms on repayment of its debts and the proportion of UK Retail sales increased.

Average creditor days in 2015 increased to 82 days (2014: 57 days) with the extension in DTL creditor terms with effect from 1 April 2015. The Group aims to settle its debts in line with supplier payment due dates.

Cash flow from operations increased to £13.6m (2014: 8.8m). The balance sheet remains robust with net cash at 31 December 2015 of £22.4m (2014: £15.9m) and no debt.

**Relocation of CICAM's manufacturing activities**

The smoke alarm and accessory manufacturing activities of CICAM, the Company's principal supplier in China, were successfully transferred to a nearby alternative facility before the year end. The new facility was formally opened on 9 December 2015 slightly ahead of schedule and Sprue acquired approximately £7.0m of buffer stock to mitigate against any potential supply chain disruption which ultimately was not needed.

**Dividend**

The Board is recommending the payment of a final dividend of 5.5 pence per share on 22 July 2016 to shareholders on the register on 8 July 2016, which if approved by shareholders at the Company's AGM to be held on 30 June 2016, takes the full year 2015 dividend to 8.0 pence per share (2014: 8.0 pence per share). 2015 dividend cover is significantly reduced at 1.6x post-tax profit (2014: 2.2x). The Board will keep its dividend policy under review in the light of the lower trading outlook for 2016 and expected recovery in 2017.

**Signed on behalf of the Board**

| | |
|---|---|
| Neil Smith | John Gahan |
| **Group Chief Executive** | **Group Finance Director** |

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## CONSOLIDATED INCOME STATEMENT
## YEAR ENDED 31 DECEMBER 2015

| | Notes | 2015 £000 | 2014 £000 |
|---|---|---|---|
| **Revenue** | 3 | **88,303** | 65,600 |
| Cost of sales excluding BRK distribution fee and exceptional warranty charge | | **(61,548)** | (41,699) |
| BRK distribution fee | | **(3,460)** | (4,164) |
| Exceptional warranty charge | 7 | **(5,500)** | - |
| Total cost of sales | | **(70,508)** | (45,863) |
| **Gross profit** | | **17,795** | 19,737 |
| Distribution costs | | **(750)** | (878) |
| Administrative expenses excluding share-based payments charge and exceptional items | | **(9,788)** | (8,498) |
| Share-based payments charge | | **(527)** | (205) |
| Exceptional items | | **-** | (525) |
| Total administrative expenses | | **(10,315)** | (9,228) |
| Total fixed costs | | **(11,065)** | (10,106) |
| Profit from operations pre-exceptional items and share-based payments charge | | **12,757** | 10,361 |
| % of sales | | **14.5%** | 15.8% |
| **Profit from operations post exceptional items pre-share-based payments charge** | | **7,257** | 9,836 |
| **Profit from operations** | | **6,730** | 9,631 |
| Finance income | | **89** | 40 |
| **Profit before tax** | | **6,819** | 9,671 |
| Income tax | 4 | **(810)** | (1,952) |
| **Profit attributable to equity owners of the parent** | | **6,009** | 7,719 |
| | | | |
| **Earnings per share** | 5 | | |
| From continuing operations: | | | |
| Basic | | **13.2** | 17.6 |
| Diluted | | **13.1** | 17.5 |
| Adjusted basic* management basis | | **24.3** | 19.2 |
| Adjusted diluted* management basis | | **24.2** | 19.1 |

**Adjusted basic and *adjusted diluted EPS on a management basis are stated before the exceptional £5.5m warranty charge (2014: AIM costs of £0.5m) and share-based payments charge £0.5m (2014: £0.2m)*

**Continuing operations**

None of the Group's activities are treated as acquired or discontinued during the above two financial years.

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
## FOR THE YEAR ENDED 31 DECEMBER 2015

| | 2015 £000 | 2014 £000 |
|---|---|---|
| **Profit for the year** | **6,009** | 7,719 |
| Items that may be reclassified subsequently to profit and loss: | | |
| Exchange differences on translation of foreign operations (net of tax) | **(60)** | (21) |
| **Other comprehensive expense for the year** | **(60)** | (21) |
| **Total comprehensive income for the year** | **5,949** | 7,698 |

## CONSOLIDATED FINANCIAL POSITION
## AS AT 31 DECEMBER 2015

| | NOTES | 2015<br>£000 | 2014<br>£000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Goodwill | | **169** | 169 |
| Other intangible assets | 6 | **6,396** | 4,333 |
| Plant and equipment | | **740** | 536 |
| Deferred tax assets | | **284** | 116 |
| | | **7,589** | 5,154 |
| **Current assets** | | | |
| Inventories | | **15,557** | 8,309 |
| Trade and other receivables | | **11,717** | 20,213 |
| Current tax assets | | **308** | - |
| Derivative financial assets | 12 | **91** | 369 |
| Cash and cash equivalents | | **22,403** | 15,887 |
| | | **50,076** | 44,778 |
| **Total assets** | | **57,665** | 49,932 |
| **Current liabilities** | | | |
| Trade and other payables | | **(18,202)** | (19,946) |
| Current tax liabilities | | **-** | (505) |
| Provisions | 7 | **(2,200)** | (873) |
| Derivative financial liabilities | 12 | **(187)** | (1) |
| | | **(20,589)** | (21,325) |
| **Net current assets** | | **29,487** | 23,453 |
| **Non-current liabilities** | | | |
| Provisions | 7 | **(4,593)** | - |
| Deferred tax liabilities | | **(1,386)** | (969) |
| **Total liabilities** | | **(26,568)** | (22,294) |
| **Net assets** | | **31,097** | 27,638 |
| **Equity** | | | |
| Share capital | 8 | **917** | 909 |
| Share premium | | **12,713** | 12,003 |
| Foreign exchange reserve | | **(129)** | (69) |
| Retained earnings | | **17,596** | 14, 795 |
| **Total equity attributable to the owners of the parent** | | **31,097** | 27,638 |

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## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
## FOR THE YEAR ENDED 31 DECEMBER 2015

| | Share capital £000 | Share premium £000 | Foreign exchange reserve £000 | Retained earnings £000 | Total £000 |
|---|---|---|---|---|---|
| Balance at 1 January 2014 | 801 | 4,123 | (48) | 10,222 | 15,098 |
| Profit for the year | - | - | - | 7,719 | 7,719 |
| Foreign exchange gains and losses from overseas subsidiaries | - | - | (21) | - | (21) |
| **Total comprehensive income for the year** | - | - | (21) | 7,719 | 7,698 |
| Transactions with owners in their capacity as owners:- | | | | | |
| Dividends | - | - | - | (3,640) | (3,640) |
| Issue of shares | 108 | - | - | - | 108 |
| Premium arising on issue of equity shares | - | 8,236 | - | - | 8,236 |
| Transaction costs arising on issue of equity shares | - | (356) | - | - | (356) |
| **Total transactions with owners in their capacity as owners** | 108 | 7,880 | - | (3,640) | 4,348 |
| Share-based payment charge | - | - | - | 205 | 205 |
| Deferred tax charge on share-based payments charge | - | - | - | (201) | (201) |
| Current tax credit on share-based payments charge | - | - | - | 490 | 490 |
| **Balance at 31 December 2014** | 909 | 12,003 | (69) | 14,795 | 27,638 |
| | | | | | |
| Profit for the year | - | - | - | 6,009 | 6,009 |
| Foreign exchange gains and losses from overseas subsidiaries | - | - | (60) | - | (60) |
| **Total comprehensive income for the year** | - | - | (60) | 6,009 | 5,949 |
| Transactions with owners in their capacity as owners:- | | | | | |
| Dividends | - | - | - | (3,877) | (3,877) |
| Issue of shares | 8 | - | - | - | 8 |
| Premium arising on issue of equity shares | - | 710 | - | - | 710 |
| **Total transactions with owners in their capacity as owners** | 8 | 710 | - | (3,877) | (3,159) |
| Share-based payment charge | - | - | - | 527 | 527 |
| Deferred tax credit on share-based payments charge | - | - | - | 63 | 63 |
| Current tax credit on share-based payments charge | - | - | - | 79 | 79 |
| **Balance at 31 December 2015** | **917** | **12,713** | **(129)** | **17,596** | **31,097** |

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## CONSOLIDATED CASH FLOW STATEMENT
## FOR THE YEAR ENDED 31 DECEMBER 2015

| | 2015 | 2014 |
|---|---|---|
| | £000 | £000 |
| **Profit before tax** | **6,818** | 9,671 |
| Finance income | **(89)** | (40) |
| **Operating profit for the year** | **6,729** | 9,631 |
| Adjustments for: | | |
| Depreciation of property, plant and equipment | **203** | 131 |
| Amortisation of intangible assets | **258** | 294 |
| Change in fair value of derivatives outstanding at the year end | **464** | (156) |
| Share-based payments charge | **527** | 205 |
| **Operating cash flow before movements in working capital** | **8,181** | 10,105 |
| Movement in inventories | **(7,248)** | (639) |
| Movement in receivables | **8,496** | (9,820) |
| Movement in warranty provision | **5,920** | 139 |
| Movement in payables | **(1,745)** | 9,020 |
| **Cash generated by operations** | **13,604** | 8,805 |
| Income taxes paid | **(1,197)** | (694) |
| **Net cash generated from operating activities** | **12,407** | 8,111 |
| **Investing activities** | | |
| Purchase of intangible assets | **(2,321)** | (1,599) |
| Purchase of property, plant and equipment | **(411)** | (234) |
| Interest received | **89** | 40 |
| **Net cash used on investing activities** | **(2,643)** | (1,793) |
| **Financing activities** | | |
| Proceeds from issue of ordinary shares | **718** | 7,988 |
| Dividends paid | **(3,877)** | (3,640) |
| **Net cash (used) / generated from financing activities** | **(3,159)** | 4,348 |
| **Net increase in cash and cash equivalents** | **6,605** | 10,666 |
| Cash and cash equivalents at beginning of year | **15,887** | 5,227 |
| Non-cash movements | **(89)** | (6) |
| **Cash and cash equivalents at end of year** | **22,403** | 15,887 |

## Notes to the financial information

### 1. General information

This consolidated financial information does not comprise statutory accounts within the meaning of section 434 of the Companies Act 2006.

### 2. Accounting policies

#### Basis of preparation

In accordance with Section 435 of the Companies Act 2006, the Group confirms that the financial information for the years ended 31 December 2015 and 2014 is derived from the Group's audited financial statements and that these are not statutory accounts and, as such, do not contain all information required to be disclosed in the financial statements prepared in accordance with International Financial Reporting Standards ("IFRS"). The statutory accounts for the year ended 31 December 2015 have been audited and approved, but have not yet been filed.

The statutory accounts for the year ended 31 December 2014 have been delivered to the Registrar of Companies. These accounts were prepared under International Financial Reporting Standards ("IFRS").

The Group's audited financial statements for the year ended 31 December 2015 received an unqualified audit opinion and the auditor's report contained no statement under section 498(2) or 498(3) of the Companies Act 2006.

The financial information contained within this announcement was approved and authorised for issue by the Board on 25 April 2016.

The accounting policies adopted in the preparation of the consolidated financial information are consistent with those followed in the preparation of the Group's financial statements for the year ended 31 December 2015 except where disclosed otherwise in this note.

#### Risks and uncertainties

An outline of the key risks and uncertainties faced by the Group is described in the 2015 financial statements, including exposure to foreign exchange rate fluctuation, in particular the strength of Sterling relative to the US Dollar and Euro. It is anticipated that the risk profile will not significantly change for the remainder of the year. Risk is an inherent part of doing business and the strong cash position of the Group, along with the underlying profitability of the core business, leads the Directors to believe that the Group is well placed to manage the business risks the Group faces.

#### Going concern

The Group's forecasts and projections, taking account of reasonably predictable changes in trading performance, support the conclusion that there is a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future, a period of not less than twelve months from the date of this report. Accordingly, the going concern basis has been adopted in preparing the financial information.

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### New standards, amendments and interpretations

The following new standards and amended standards, none of which have a material impact on these financial statements, are mandatory and relevant to the Group for the first time for the financial year ended 31 December 2015:

- Annual improvements 2011-2013

*Accounting standards in issue but not yet effective:*

At the date of authorisation of these financial statements the following standards and interpretations, which have not been applied in these financial statements and which are considered potentially relevant, were in issue but not yet effective (and in some cases had not yet been adopted by the EU):

- Annual improvements 2010-2012
- Annual improvements 2012-2014
- IFRS 9: Financial Instruments
- IFRS 15: Revenue from contracts with customers
- IFRS 16: Leases
- Amendments to IAS 1 Disclosure Initiative
- Amendments to IAS 16 and IAS 38: Clarification of acceptable Methods of Depreciation and Amortisation
- Amendments to IAS 12: Recognition of Deferred Tax Assets for Unrealised Losses
- Amendments to IAS 7: Disclosure Initiative
- Clarifications to IFRS 15: Revenue from Contracts with Customers

The Directors anticipate that the adoption of these standards and interpretations in future periods will have no material impact on the financial statements of the Group or the Company when the relevant standards and interpretations come into effect.

### 3. Operating segments

Sprue sells and distributes home safety products and accessories in the UK, Continental Europe and certain other countries and undertakes manufacturing activities in Canada. Its major customers are mainly based throughout Continental Europe. Financial information is reported to the Board on a consolidated basis with revenue and operating profit stated for the Group.

The Board considers that there are no identifiable business segments that are engaged in providing individual products or services or a group of related products and services that are subject to risks and returns that are different to the core business.

Segmental revenues for each of the Group’s business units, comprising gross and net sales to external customers and movement in gross profit from previous forecasts is the main financial information reported to the Board at business-unit level. Business unit reporting to the Board excludes information on overheads and other income statement information, which is reported on an aggregated basis.

All assets are consolidated on a Group basis and reported as such to the Board.

All business units earn revenue from the sale of smoke and carbon monoxide detectors and accessories to end customers. Pace Sensors Limited earns revenue from the manufacture and sale of carbon monoxide sensors to a third party carbon monoxide detector assembler based in China.

For 2015, revenues of approximately £39.0m (2014: £25.5m) were derived from two (2014: two) external customers, each of which individually contributed over 10% of total external revenue of the Group. These revenues are attributable to the European business unit.

A geographical analysis of the Group's revenue is as follows:

| | **2015** | 2014 |
|---|---|---|
| | **£000** | £000 |
| *Continuing operations:* | | |
| United Kingdom | **31,614** | 23,936 |
| Continental Europe and Rest of World | **56,689** | 41,664 |
| | **88,303** | 65,600 |

Non-current assets, excluding deferred tax assets, for UK and overseas territories are shown as follows:

| | **2015** | 2014 |
|---|---|---|
| | **£000** | £000 |
| *Continuing operations:* | | |
| UK | **7,112** | 4,820 |
| Canada | **193** | 218 |
| **Non-current assets** | **7,305** | 5,038 |

## 4. Income tax

The major components of income tax expense in the Income Statement are as follows:

| | **2015** | 2014 |
|---|---|---|
| | **£000** | £000 |
| *Current tax* | | |
| UK corporation tax charge | **301** | 1,596 |
| UK – Adjustments in respect of prior periods charge / (credit) | **(38)** | 136 |
| Foreign tax charge | **235** | 11 |
| | **498** | 1,743 |
| *Deferred tax* | | |
| Origination and reversal of temporary differences | **312** | 209 |
| **Income tax expense** | **810** | 1,952 |

Domestic income tax is calculated at 20.5% (2014: 21.5%) of the estimated assessable profit for the year.

The effective tax rate was 12% (2014: 20%). The decrease is primarily attributed to the adjustment in respect of claiming small company's enhanced R&D tax relief at the elevated 230% rate compared to the previous year of claiming R&D tax relief at the large company rate of 125%, which decreased the tax charge for the year.

As a result of the change in the UK corporation tax rate from 21% to 20% that was substantively enacted on 26 June 2014 and that was effective from 1 April 2015, the relevant deferred tax balances have been re-assessed.

## 5. Earnings per share

The calculation of the basic and diluted earnings per share is based on the following data:

| Earnings from continuing operations | 2015 £000 | 2014 £000 |
|---|---|---|
| **Earnings for the purposes of basic and diluted earnings per share (profit for the year attributable to owners of the parent)** | **6,009** | 7,719 |

| Number of shares | '000 | '000 |
|---|---|---|
| Weighted average number of ordinary shares for the purposes of basic earnings per share | **45,613** | 43,824 |
| Effect of dilutive potential ordinary shares: | | |
| Deemed issue of potentially dilutive shares | **322** | 302 |
| **Weighted average number of ordinary shares for the purposes of diluted earnings per share** | **45,935** | 44,126 |

| | 2015 pence | 2014 pence |
|---|---|---|
| Basic earnings per share (pence) | **13.2** | 17.6 |
| Diluted earnings per share (pence) | **13.1** | 17.5 |

The calculation of the adjusted basic and adjusted diluted earnings per share pre-exceptional items and share-based payments charge is based on the following data:

| Earnings from continuing operations | 2015 £000 | 2014 £000 |
|---|---|---|
| Earnings for the purposes of basic earnings per share (profit for the year attributable to owners of the parent) | **6,009** | 7,719 |
| Exceptional items | **5,500** | 525 |
| Share-based payments charge | **527** | 205 |
| Less: tax on exceptional item and share-based payments charge | **(941)** | (41) |
| **Earnings for the purposes of adjusted basic and diluted earnings per share** | **11,095** | 8,408 |

| Number of shares | '000 | '000 |
|---|---|---|
| Weighted average number of ordinary shares for the purposes of basic earnings per share | **45,613** | 43,824 |
| Effect of dilutive potential ordinary shares: | | |
| Deemed issue of potentially dilutive shares | **322** | 302 |
| **Weighted average number of ordinary shares for the purposes of adjusted diluted earnings per share** | **45,935** | 44,126 |

| | 2015 pence | 2014 pence |
|---|---|---|
| Adjusted basic earnings per share pre-exceptional items and before share-based payments charge (pence) | **24.3** | 19.2 |
| Adjusted diluted earnings per share pre-exceptional items and before share-based payments charge (pence) | **24.2** | 19.1 |

Basic EPS is calculated by dividing the earnings attributable to ordinary owners of the parent by the weighted average number of shares outstanding during the period.

Diluted EPS is calculated on the same basis as basic EPS but with a further adjustment to the weighted average shares in issue to reflect the effect of all potentially dilutive share options. The number of potentially dilutive share options is derived from the number of share options and awards granted to employees where the exercise price is less than the average market price of the Company's ordinary shares during the period.

### 6. Other intangible assets

| | Product development costs £000 | Computer software £000 | Total £000 |
|---|---|---|---|
| **Cost** | | | |
| At 1 January 2014 | 4,232 | 233 | 4,465 |
| Additions | 1,592 | 7 | 1,599 |
| At 31 December 2014 | 5,824 | 240 | 6,064 |
| Additions | 2,271 | 50 | 2,321 |
| **At 31 December 2015** | **8,095** | **290** | **8,385** |
| **Amortisation** | | | |
| At 1 January 2014 | 1,295 | 142 | 1,437 |
| Amortisation for the year | 236 | 58 | 294 |
| At 31 December 2014 | 1,531 | 200 | 1,731 |
| Amortisation for the year | 231 | 27 | 258 |
| **At 31 December 2015** | **1,762** | **227** | **1,989** |
| **Carrying amount** | | | |
| At 31 December 2014 | 4,293 | 40 | 4,333 |
| **At 31 December 2015** | **6,333** | **63** | **6,396** |

The total amortisation charge of £258,000 (2014: £294,000) has been recognised within administration expenses.

### 7. Warranty provision

| | 2015 £000 |
|---|---|
| At 1 January 2014 | 734 |
| Additional provision in year | 1,305 |
| Utilisation of provision | (1,166) |
| At 31 December 2014 | 873 |
| Additional provision in year | 7,987 |
| Utilisation of provision | (2,067) |
| **At 31 December 2015** | **6,793** |

The warranty provision is stated as the following:

| | 2015 £000 | 2014 £000 |
|---|---|---|
| Non-current provision | **4,593** | - |

| | 2015 £000 | 2014 £000 |
|---|---|---|
| Current provision | **2,200** | 873 |

### Warranty provision and exceptional £5.5m warranty charge

As at 31 December 2015, the Group carried a warranty provision of £6.8m (2014: £0.9m) against the cost of replacing products where there were known specific product issues resulting in an expectation that the level of returned products will exceed the Group's maximum long term product returns rate of 1.0% (2014: 1.0%).

Determining the amount of the provision, which reflects the Board's best estimate of resolving these issues, requires the exercise of significant judgement. It is necessary, therefore, to form a view on matters which are inherently uncertain, such as the returns profile over time, the final return rate, whether the return rate of each year of production will be similar, whether the return rates from different sales channels will vary and the average cost of redress.

There is a greater degree of uncertainty in assessing these factors when an issue is first identified, as in the case of the battery issue which resulted in a £5.5m exceptional warranty charge in 2015 where the failure typically occurs around three years from the date of the battery manufacture. Consequently, the continued appropriateness of the underlying assumptions will be reviewed on an ongoing basis against actual experience and other relevant evidence and adjustment made to the provision as required.

The key drivers relating to the battery warranty provision, which equates to £6.1m of the total £6.8m provision as at 31 December 2015, and the work the Board has undertaken to assess them, is set out below:

- **Final return percentage rate.** The Board has used past experience of the Group's product returns with battery related issues to develop a model of the expected returns profile in order to estimate the final return percentage rate, using the best available data in respect of batteries manufactured in 2012.
- **The return rate for each year affected.** Whilst the Board consider that it is likely that process improvements at the battery manufacturer are expected to reduce product return rates in respect of later years' production, in the absence of any data to definitively confirm this, only a marginal improvement has been factored into the provision.
- **Different product return rates from different sales channels.** The Board has estimated the expected product return rates for different sales channels based on the Group's past experience.
- **Cost of redress.** The cost of issuing free of charge returns is relatively straight forward to determine and as such, this is the lowest risk assumption in the model.

The provision estimate of £6.1m relates solely to the battery issue and is most sensitive to the assumption regarding the final return percentage rate. For reference, a 10% increase in the estimated final return rate, with no further improvement for each subsequent year of affected production, would result in an increase in the provision of approximately £0.5m.

### Review of warranty policy

On all of its products, the Group provides a warranty on the whole product, including the battery, which is typically between one to ten years in duration; Sprue's product warranty policies are thought by the Board to be generally in line with UK and European smoke/CO industry "norms".

However, in light of the battery warranty issues recently identified, the Group is reviewing its policies around product warranty. More extensive testing of product returns is to be introduced to reduce the number of free of charge replacement products issued to customers. Where products are found to have "no fault found", the Group may decide not to provide free of charge replacements. In addition, as the battery is typically less than 10% of the cost of replacing a smoke alarm, the Group may restrict its product warranty for shorter periods or seek to not provide a warranty on the battery at all. The Group is also reviewing its "sealed for life" products which are designed to prevent the batteries being removed as requested by our UK F&RS customers. If there is an issue with the battery, the sealed for life design exacerbates the warranty cost as the whole product is replaced, rather than just one replacement battery.

## 8. Share capital

| | Company 2015 Number '000 | Company 2014 Number '000 |
|---|---|---|
| **Authorised:** | | |
| 100,000,000 Ordinary shares of 2p each | | |
| | | |
| Ordinary shares in issue: | | |
| As at 1 January | **45,496** | 40,075 |
| Issue of shares in respect of admission to AIM | **-** | 4,000 |
| Issue of shares in respect of share options exercised | **359** | 1,421 |
| **As at 31 December** | **45,855** | 45,496 |
| | | |
| **Issued and fully paid Ordinary shares of 2p each:** | **£000** | £000 |
| As at 1 January | **909** | 801 |
| Issue of share capital in respect of admission to AIM | **-** | 80 |
| Issue of share capital in respect of share options exercised | **8** | 28 |
| **As at 31 December** | **917** | 909 |

The Company has one class of ordinary shares which carry no right to fixed income.

## 9. 2014 share options award and 2015 long term incentive plan ("LTIP")

The share-based payment charge of £527,000 (2014: £205,000) included in the Statement of Consolidated Income within administrative expenses includes:

- £308,000 attributable to 2014 share options
- £70,000 attributable to 30,000 share options awarded to one employee in June 2015 in Canada. These options fully vested immediately and will not be accrued over three years
- £149,000 attributable to 2015 long term incentive nominal cost options awarded on 3 June 2015

A summary of the change in options is set out below:

| | **2015** | | 2014 | |
|---|---|---|---|---|
| | **Options 000** | **Weighted average exercise price** | Options 000 | Weighted average exercise price |
| Outstanding at 1 January | **1,479** | **200p** | 1,471 | 24p |
| Exercised during the period | **(359)** | **200p** | (1,421) | 24p |
| Granted during the period | **975** | **2p** | 1,464 | 200p |
| Expired during the period | **(70)** | **200p** | (35) | 200p |
| **Outstanding and exercisable 31 December** | **2,025** | **102p** | 1,479 | 200p |

Further details of share options outstanding at 31 December 2015 are as follows:

| Grant date | Outstanding at start of period | Exercised during the period | Granted during the period | Forfeited during the period | Outstanding at end of period | Expiry date | Exercise price |
|---|---|---|---|---|---|---|---|
| *Directors' share options* | | | | | | | |
| 25/04/2014 | 375,000 | (55,555) | - | - | **319,445** | 28/04/2021 | 200p |
| 03/06/2015 | - | - | 900,000 | - | **900,000** | 03/06/2025 | 2p |
| *Employee share options* | | | | | | | |
| 30/06/2010 | 50,000 | - | - | - | **50,000** | 29/06/2017 | 35p |
| 25/04/2014 | 1,054,000 | (303,187) | - | (69,583) | **681,230** | 28/04/2021 | 200p |
| 03/06/2015 | - | - | 45,000 | - | **45,000** | 03/06/2025 | 2p |
| 03/06/2015 | - | - | 30,000 | - | **30,000** | 03/06/2015 | 2p |
| | 1,479,000 | (358,742) | 975,000 | (69,583) | **2,025,675** | | |

The weighted average share price at the date of exercise for share options exercised during the period was 315p.

### 2014 share options award

On 30 April 2014, the Company granted 1.46m employee share options at an exercise price of £2.00 per share. The share options vest evenly over three years and are exercisable for ten years from the date of grant.

The Company has an approved EMI scheme for qualifying UK based employees which provided for an award of share options based on seniority. Share options vest over three years. If options remain unexercised after a period of 10 years from the date of grant, the options usually expire except in exceptional circumstances at the discretion of the Board. Furthermore, options are typically forfeited if an employee leaves the Group before options have vested.

Options under the 2014 share options award have been valued using the Black Scholes model with the following assumptions:

| | **2014** |
|---|---|
| **Directors' and Employee share options award 2014** | |
| **Average share price when options issued (pence)** | **200** |
| **Average expected volatility** | **35.6%** |
| **Expected life** | **10 yrs** |
| **Risk free rate** | **1.8%** |
| **Expected dividends** | **2.4%** |

Expected volatility was determined by calculating the historical volatility of the Group's share price over the previous 7 years. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability and exercise restrictions.

### 2015 LTIP

Executive directors included in the 2015 LTIP are as follows:

| Director | Position | Number of nil cost options awarded |
|---|---|---|
| G Whitworth | Executive Chairman | 200,000 |
| N Rutter | Managing Director | 200,000 |
| N Smith | Group Chief Executive | 300,000 |
| J Gahan | Group Finance Director | 200,000 |

The key elements of the 2015 LTIP include:

- Measurement period is three years from the date of grant being 3 June 2015 to 3 June 2018
- Any 2015 LTIP award is subject to delivering a minimum total shareholder return ("TSR") of at least 25% over the measurement period
- If TSR is less than 25% over the measurement period, none of the share options vest
- For TSR of between 25% and 100%, 25% up to 100% of the options vest on a straight line basis
- For 100% TSR or more over the measurement period, 100% of the share options vest
- To the extent that the performance target is met as at 3 June 2018, options are exercisable at any time up to the tenth anniversary of the date of grant (or earlier in the case of a “corporate event”)
- If the option holder leaves the Group by reason of death, injury, ill health or disability, redundancy, or because the business he works for is sold outside the Group, or otherwise at the discretion of the Remuneration Committee, then his 2015 LTIP award shall vest on a time prorated proportion subject to the performance criteria being met or having been deemed to have been met by the Remuneration Committee
- If the option holder leaves the Group for any other reason, his 2015 LTIP award will lapse

Options under the 2015 award have been valued using a Monte Carlo model (given the increased uncertainty around potential vesting) with the following assumptions:

| | 2015 |
|---|---|
| **Directors’ and Employee share options LTIP award 2015** | |
| **30 day average share price before options were issued (pence)** | **289** |
| **Average expected volatility** | **30.7%** |
| **Expected life** | **5 yrs** |
| **Risk free rate** | **2.4%** |
| **Expected dividends** | **4.0%** |

Expected volatility was determined using the historical volatility of the Group’s share price since moving onto AIM. The expected life of the option used in the model of 5 years has been adjusted, based on the Board’s best estimate, for the effects of non-transferability and the likelihood of the timing of potential exercise.

The Group recognised a 2015 LTIP share based expense of £149,000 (2014: £nil) relating to equity-settled share-based payment transactions.

## 10. Dividends

On 3 July 2015, a dividend of £2.7m, 6.0 pence per share, was paid to shareholders. On 31 October 2015 an interim dividend of £1.1m, 2.5 pence per share, was paid to shareholders.

In respect of the year ended 31 December 2015, the directors recommend the payment of a final dividend of 5.5 pence per share on 22 July 2016 to shareholders on the register on 8 July 2016. This dividend is subject to approval by shareholders at the Annual General Meeting to be held on 30 June 2016 and has not been included as a liability in these financial statements. The total estimated final dividend to be paid is £2.5m.

### 11. Foreign currency

The Group continues to generate significant amounts of Euros in excess of its Euro payment requirements and has forward contracts in place to reduce its exposure to the cost of purchasing US Dollars and Sterling. All contracts are marked to market at the balance sheet date with the gain or loss arising taken to cost of sales.

### 12. Financial risk management and financial instruments

The Group's activities expose it to a variety of financial risks that include currency risk, interest rate risk, credit risk and liquidity risk.

These financial statements do not include all financial risk management information and disclosures required in the annual financial statements which should be read in conjunction with the Group's financial statements as at 31 December 2015. There have been no changes to the risk management policies since the year ended 31 December 2015.

The Group's finance department performs the valuations of financial assets required for financial reporting purposes. They report directly to the Group Finance Director ("GFD"). Discussions of valuation processes and results are held with the GFD each month, in line with the Group's reporting dates.

The total net loss on forward contracts recognised in the profit for the year ended 31 December 2015 was (£0.5m) (2014: £0.2m gain) and is included within "Cost of Sales".

### 13. Related parties: Jarden Corporation ("Jarden")

Balances and transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note.

During the year, Group companies entered into the following transactions with Jarden which is not a member of the Group:

| | **Jarden** | |
|---|---|---|
| | **2015** | 2014 |
| | **£000** | £000 |
| Sales of goods in year | **3,168** | 2,792 |
| Purchases of goods in year including engineering fees | **49,581** | 28,956 |
| Distribution agreement fee | **3,460** | 4,164 |
| Dividends payable | **912** | 643 |
| Amounts owed by related parties at year end | **-** | 580 |
| Amounts owed to related parties at year end | **11,221** | 13,486 |

Jarden, through its subsidiary BRK Brands Europe Limited holds a significant proportion of the Company's ordinary shares (23.4% as at 31 December 2015) and has representation on the Company's board of directors. Consequently the Directors consider that Jarden is a related party. Purchases between related parties are made under contractual arrangements.

Jarden represents the single largest supplier to the Company supplying a significant proportion of the Group's purchased products and charging the Company for its ongoing engineering support for its BRK, First

Alert and Dicon brands. Sales of goods in the year relate to Jarden's wholly owned subsidiary, Mapa Spontex which is based in France.

### Relocation of CICAM's manufacturing activities

We are pleased to confirm that the facilities of CICAM were successfully transferred to a nearby alternative facility and that the relevant certification approvals for the new facility are in place. Products are now being produced at the new facility which was formally opened on 9 December 2015.

## 14. Post balance sheet events

### Amended supply terms with DTL

With effect from 1 January 2016, Sprue has agreed to amend supply terms with DTL. The details of the amended supply terms are as follows:

Working in partnership with, and at Sprue's request, DTL has made significant investment in its new high technology manufacturing facility and is also bearing increased Chinese labour costs. Sprue has agreed to accept modest product price increases to reflect a share of the incremental costs incurred by DTL. The new CICAM manufacturing facility has significant capacity above current production levels which Sprue can utilise as product volumes increase over time.

Sprue has agreed to share equally the impact of Sterling's depreciation against the US Dollar from a previously fixed rate of GBP/US Dollar 1.62 exchange rate.

Furthermore, the parties have agreed to an annual retrospective volume/12 month average foreign exchange rate rebate mechanism which effectively increased the Group's foreign exchange rate risk on Sterling v US Dollar purchases with effect from 1 January 2016, despite the Group continuing to acquire products from DTL in Sterling.

At the expected current volumes and the current GBP/US Dollar exchange rate, this results in significant product on cost on all DTL sourced product this year. However, should purchase volumes increase and/or the average GBP/US Dollar exchange rate improve from the current level, Sprue will see its share of the benefit.

Sprue continues to purchase all Sprue and BRK products from DTL on 90 day landed credit terms.

### Prepayment of software licences

In January 2016, the Group prepaid £450,000 in respect of software licences granted by Intamac Systems Limited ("Intamac") in accordance with a Software Development Agreement to enable Sprue to connect and monitor its products over the internet. Consequently, £450,000 (2014: £nil) is included within other debtors.

## 15. Date of approval of financial statements

These financial statements cover the period 1 January 2015 to 31 December 2015 and were approved by the Board on 25 April 2016. Further copies of the financial statements can be accessed on the Sprue Aegis plc investor relations website, www.sprueaegis.com.

SPRUE AEGIS

## Board of Directors

***Executive***

| | |
|---|---|
| G Whitworth | Executive Chairman |
| N Smith | Group Chief Executive |
| J Gahan | Group Finance Director |
| N Rutter | Managing Director |

***Non-executive***

W Payne
A Silverton
T Russo
J Shepherd

## Corporate Directory

**REGISTERED NUMBER**
3991353

**SECRETARY**
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Chartered Accountants
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**SOLICITOR**
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1 New Fetter Lane
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**BANKER**
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Bristol
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**NOMINATED ADVISOR AND BROKER**
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Beaufort House
15 St. Botolph Street
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EC3A 7BB

## Shareholder information

**SHAREHOLDER ENQUIRIES**

Any shareholder with enquiries should, in the first instance, contact our registrar, Neville Registrar, using the address provided in the Corporate Directory.

**SHARE PRICE INFORMATION**

London Stock Exchange Alternative Investment Market (AIM) symbol: **SPRP**

Information on the Company's share price is available on the Sprue Aegis investor relations website at www.sprueaegis.com

**INVESTOR RELATIONS**

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Website: www.sprueaegis.com

**FINANCIAL CALENDAR**

| | |
|---|---|
| Financial year end | 31 December 2015 |
| Full year results announced | 26 April 2016 |
| Annual General Meeting | 30 June 2016 |
| Record date for final dividend | 8 July 2016 |
| Final dividend payment | 22 July 2016 |