SPRUE AEGIS

15 May 2018

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

FINAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2017

Sprue (AIM: SPRP), one of Europe's leading developers and suppliers of home safety products announces its audited final results for the year ended 31 December 2017.

Financial highlights

- Group revenue of £54.3m (2016: £57.1m)
- Adjusted operating profit pre-exceptional charge* of £4.7m (2016: £2.2m)
- Operating profit of £0.5m (2016: £1.5m)
- Adjusted profit before tax pre-exceptional charge* of £4.7m (2016: £2.3m)
- Exceptional charge for Settlement Agreement with BRK of £3.8m included in cost of sales (2016: exceptional restructuring charge of £0.2m included within administrative expenses)
- Profit after tax of £0.5m (2016: £1.8m)
- Adjusted gross margin** increased to 33.1% (2016: 28.6%), principally due to a significant reduction in product warranty and product screening costs
- Basic EPS post-exceptional items of 1.1p per share (2016: 4.0p per share)
- Maintained investment in intangible assets of £3.6m (2016: £3.9m)
- Net cash of £3.3m as at 31 December 2017 (2016: £14.3m) and no debt (2016: £nil)

**Adjusted operating profit and profit before tax are stated before an exceptional charge for the Settlement Agreement with BRK of £3.8m (2016: £0.2m restructuring charge) and share-based payments charge of £0.4m (2016: £0.6m)*

***Adjusted gross margin is stated before the BRK distribution fee of £2.9m (2016: £3.0m) and before the exceptional charge for the Settlement Agreement with BRK of £3.8m (2016: £nil)*

Operational highlights

- Expanded revenue channels with major customer wins across UK Retail, Trade and EMEA
- Launched Wi-Safe Connect and Z-Wave compatible alarms expanding the Company's connected homes proposition
- Maintained market-leading position in CO alarm provision in the UK supporting national marketing campaigns
- Launched Europe's first domestic battery powered gas alarm as a range extension product
- Acquisition of final core modules of Intamac Systems' source code for £0.9m in cash to enhance the Group's connected home product offering
- Product warranty returns and warranty costs were in line with the Board's expectations
- Manufacturing of Sprue's own products at Flex in Poland is underway and on track
- The Board proposes to seek shareholder approval at the Company's forthcoming AGM to change the Company's name to FireAngel Safety Technology Group plc

Termination of Distribution Agreement ("DA") and Manufacturing Agreement ("MA") and appointment of two new strategic manufacturing partners

- On 31 March 2017, Sprue received the requisite 12 months' written notice from Newell Brands Inc. ("Newell"), to terminate the DA entered into between Sprue, BRK Brands Europe Limited ("BRK") and Jarden Corporation (now owned by Newell) and the MA with DTL, a subsidiary of Newell (the "Termination")

- Termination ended Sprue's obligation to pay the fixed BRK annual distribution fee of £2.9m and right to distribute BRK's products and brands in Europe, both with effect from 31 March 2018
- As announced on 31 March 2017, the Company entered into a manufacturing and supply agreement with Flex to source a range of smoke and heat alarms and accessories from Flex's facility in Poland together with a new supply agreement with a leading manufacturer based in the Far East to purchase alternatives to the BRK products

Settlement Agreement with BRK

- As announced on 10 May 2018, Sprue signed a settlement agreement (the "Settlement Agreement") with BRK Brands Inc, BRK Brands Europe Limited, Jarden LLC and Detector Technology Limited (together "BRK") in full and final settlement of all matters between the parties
- As a result of signing the Settlement Agreement, Sprue has booked a £3.8m exceptional charge as part of cost of sales in these results) which includes £3.4m to write down the book value of the remaining BRK inventory as at 30 April 2018 to £nil (as Sprue will no longer be selling BRK inventory), provisions of £0.2m to cover disposal (scrappage) costs of BRK inventory manufactured before 1 January 2017 and £0.2m to cover the Group's legal and professional fees incurred since 22 March 2018 in respect of the dispute with BRK

Graham Whitworth, Executive Chairman of Sprue, commented:

"We worked throughout 2017 to put in place the fundamental building blocks to install an independent supply chain and to position the Company as a dynamic, technology-led growth business. We are pleased with what we achieved last year. We have an exciting array of products to come through and look forward to seeing sales of new products and technology resulting from the £3.6m investment in intangible assets made during the year (2016: £3.9m).

Disappointingly, on 22 March 2018, the day before the 2017 final results were set to be approved by the Board, the Company was unexpectedly notified by BRK of a "Termination for Breach Notice" as announced on 23 March 2018. Whilst it is regrettable that release of these results has been delayed until now, the Board wanted to ensure that the Company "drew a line" under its eight year relationship with BRK and signed a full and final settlement agreement as announced on 10 May 2018.

As a result of signing the Settlement Agreement, Sprue has booked a £3.8m exceptional charge in these results which includes £3.4m to write down the book value of the remaining BRK inventory as at 30 April 2018 to £nil (as Sprue will no longer be selling BRK inventory), provisions of £0.2m to cover disposal (scrappage) costs of BRK inventory manufactured before 1 January 2017 and £0.2m to cover the Group's legal and professional fees incurred since 22 March 2018 in respect of the dispute with BRK. Whilst the Board is pleased to have brought all disputes with BRK to an end with a "clean break" for both sides, the Group's 2018 cash flow will be adversely impacted by approximately £3.8m as a result of the Settlement Agreement.

Sales in the four months to 30 April 2018 are approximately 20 per cent. lower than in 2017, primarily because of lower sales into Germany due mainly to overstocking. Whilst the Board believes that manufacturing Sprue's products at Flex, Poland, plus the investment into technology building blocks will open up growth opportunities, and is the right move for the Group strategically, in the short term, this has impacted the Group's trading as management has been focused on the transition plan, and latterly, on settling the dispute with BRK amicably.

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We are pleased to report that production at Flex is under way. The commencement of production at Flex has increased the Group's capital costs with £1.4m in total spent in 2017 on Flex tooling (2016: £0.5m of non-Flex costs). The Group has commenced the sale of alternatives to BRK products sourced from our new supplier in the Far East. For Sprue's customers, it is very much "business as usual", but with renewed focus and emphasis on selling FireAngel branded products.

With disruption from the transition to the new FireAngel range, new product introductions and lower than anticipated sales into Germany in H1 2018 due mainly to overstocking, the Board expects that the Group will report an operating loss for H1 2018. In addition, the Group's sales and operating profit for the full year are likely to be significantly below the most recent market expectations. The Company's 2018 results will be more heavily weighted towards H2 than has been the case in recent years as we install new FireAngel retail ranges, potential new sales emerge and sales into Germany are expected to recover.

However, the Board expects the Company's operating results to improve significantly in 2019 and beyond when there is no BRK distribution fee to pay and, as expected, sales increase into newly emerging channel opportunities and recover in the Group's key market, Germany, together with sales growth in UK Retail and UK Trade."

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Notes to Editors
About Sprue Aegis plc

Sprue is one of the leaders in the European home safety products market and its range of products can be connected over the internet including smoke alarms, CO alarms and accessories.

The Group has its own extensive portfolio of patented intellectual property in Europe, the US and other selected territories. Products are sold under Sprue's leading brands of FireAngel and AngelEye.

Sprue's mission is to protect, save and improve its customers' lives by making innovative, leading edge technology simple and accessible. For further product information, please visit: www.sprue.com

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Executive Chairman's Statement

Overview

The Company once again demonstrated its resilience and reported a much improved adjusted operating profit* in 2017 of £4.7m (2016: £2.2m) against a backdrop of significant changes to the Group's supply chain arrangements, brand and product range consolidation and the continued development of the product roadmap. Across the business, we invested a large amount of time on the transition to manufacturing Sprue's own products at Flex in Poland, where we are pleased to report that production has commenced and the first smoke alarm products are due to be shipped to Sprue later this month, to be followed by heat alarms and accessories as production increases.

Adjusted gross margin improved by 4.5% to 33.1%, still a long way away from, but moving towards the Board's medium term 40% target. The improvement in gross margin was helped by a significant reduction in total warranty and screening costs. The introduction of new products and more connected products is expected to lead to further material improvement in gross margin over time.

**Adjusted operating profit and profit before tax are stated before an exceptional charge for the Settlement Agreement with BRK of £3.8m (2016: £0.2m restructuring charge) and share-based payments charge of £0.4m (2016: £0.6m)*

Settlement Agreement

As announced on 10 May 2018, Sprue signed a settlement agreement (the "Settlement Agreement") with BRK Brands Inc, BRK Brands Europe Limited, Jarden LLC and Detector Technology Limited (together "BRK"). In summary, and in consideration for a full and final settlement of all matters between the parties, it has been agreed that:

- BRK will purchase from Sprue all BRK inventory manufactured from 1 January 2017 for £1.02 million to be paid by way of deduction from payments due by Sprue to BRK under the terms of the DA, save for 3,097 units required by Sprue for its ongoing warranty purposes;

- Sprue will provide warranty support to its customers on all BRK products manufactured before 1 April 2018 and provide transitional support to ensure an orderly handover as part of the Settlement Agreement;

- Sprue will dispose of all BRK inventory manufactured before 1 January 2017 at its own cost, save for 4,857 units required by Sprue for its ongoing warranty purposes;

- BRK approves the sale by Sprue of excess stock of Sprue's CO products using BRK's brands valued at approximately £300,000 for a period of 6 months;

- Sprue grants BRK a 12 month non-exclusive licence for its relevant intellectual property, including registered patents and design registration; and

- Sprue will pay the outstanding balance of payments, amounting to a total of £10,972,484.88 and $71,071, owed to BRK under the terms of the DA and the MA in monthly instalments by 24 December 2018.

As a result of signing the Settlement Agreement, Sprue has booked a £3.8m exceptional charge as part of cost of sales in these results (2016: £0.2m exceptional restructuring charge in administrative expenses) which includes £3.4m to write down the book value of the remaining BRK inventory as at 30 April 2018 to £nil (as Sprue will no longer be selling BRK inventory), provisions of £0.2m to cover disposal (scrappage) costs of BRK inventory manufactured before 1 January 2017 and £0.2m to cover

the Group's legal and professional fees incurred since 22 March 2018 in respect of the dispute with BRK.

After taking account of exceptional charges, the Group reported a profit before taxation of £0.5m (2016: £1.5m).

New sourcing arrangements

We are pleased to confirm that Flex, Poland has commenced manufacture of Sprue's products and the Far East based supplier has commenced supply of alternatives to the BRK products in April 2018. While the significant amount of activity across the business to ready the Group for this transition has been a significant distraction, we now look forward to re-energising our sales efforts in 2018 selling a consolidated range of products.

Although we do not expect any significant disruption to our supply chain as we migrate to the new sourcing arrangements, we continue to monitor stock levels and the availability of components that are on longer lead times. Supplies of the Group's carbon monoxide detectors from an independent third party supplier in China are unaffected. Through a combination of a brand and SKU consolidation exercise, which is already underway, and by sourcing from Poland, we expect to significantly reduce our inventory by the end of this year.

Since entering into the DA and MA in April 2010, the relationship with BRK has served us well and provided the Group with an enviable list of sizeable customers in UK Trade, together with a number of well-established exclusive key distributors that sell the Group's products in Continental Europe. However, last year, both Sprue and BRK considered that the DA and MA arrangements had run their course. The Board believes that Sprue has market leading IP and technology, great products and strong brands and will continue to be successful following the conclusion of its relationship with BRK.

The Group does not require any technology or products from BRK to continue its business. The Settlement Agreement announced on 10 May 2018 draws a line under the relationship and leaves both companies free to move forward unfettered after a relationship that lasted just over eight years.

Saving of BRK distribution fee in 2018 of £2.0m and £2.9m each year thereafter

The saving of the annual BRK distribution fee of £2.0m in 2018 and £2.9m each year thereafter represents a substantial reduction in the fixed costs of the Group.

HSBC £7m revolving credit facility

In late January 2018, the Group entered into a committed 3 year revolving credit facility with HSBC Bank plc for £7.0m ("RCF") to fund its working capital. On 29 March 2018, the Group drew down £3.0 million under the facility to increase its available short term cash resources which was subsequently repaid in full at the end of the 30 day draw down period. Notwithstanding the financial impact of the Settlement Agreement, the Board is confident that the Group will continue to comply with the terms attaching to this facility.

Product costs

The changes we have made to the supply chain bring greater certainty to our future product cost base. As production volumes normalise, and we use Flex to help us introduce improved design for manufacture features, new product introductions and increased volumes will help to improve the Group's gross margin.

Sourcing products from Flex and the Far East supplier instead of Detector Technology Limited (where the Group had the benefit of an agreed Sterling / USD exchange rate sharing mechanism with Newell), will increase the Group's product costs in the short term at the Group's budgeted exchange rate of Sterling / USD 1.40. The average Sterling / USD exchange rate in 2017 was 1.30.

Since 1 April 2018, in addition to all carbon monoxide sensors that are already purchased in USD, the Group now sources almost all of its other products in US Dollars. The Group hedges exchange rate risk using forward contracts to smooth the impact of exchange rates on the Group's results.

Strategy for new products

We have a clear strategic objective to develop our technology in-house. We want to offer our customers innovative and market leading products in the growing connected home products arena where the market dynamic requires easy to use connected and "smarter" solutions. This will allow us to compete for new and emerging market opportunities.

The purchase in 2017 of the final core software modules from Intamac Systems Limited ("Intamac") for £0.9m in cash will help the Group to expand its addressable markets with added functionality to its current connected home solutions product offering. In future, we expect that the majority of home safety product devices that the Group sells will become internet connected.

In addition to the £2.7m investment in intangible assets made in the year (2016: £2.2m) and the purchase of Intamac software costs of £0.9m (2016: £1.6m), the Group purchased tooling at Flex at a cost of £1.4m (2016: £0.5m other property and equipment). The Board is committed to continue to invest in the Technical team in Coventry to provide the products and technology for the future.

Our partnership with Samsung SmartThings™ and our OEM relationship with Siemens are strong endorsements of our products and our connected homes technology offering.

Dividend

In light of the £3.8m cash cost in 2018 as a result of signing the Settlement Agreement, the Group's reduced prospects for 2018 as outlined below, the long term higher capital costs the Group faces using a third party contract manufacturer and the Board's commitment for continuing significant investment in new products and technology, the Board is not recommending payment of a final dividend in respect of 2017. The total dividend payable for 2017 is therefore 2.5 pence per share (2016: 8.0 pence per share).

Our dividend policy will remain under constant review with the Board's desire to recommence dividend payments when it is prudent to do so.

Board changes

On 31 March 2017, Tom Russo resigned as a Non-Executive Director of the Company with immediate effect. Mr Russo was appointed to the Board in September 2011 as the nominated director for Jarden Corporation (which was acquired by Newell Brands in early 2016). Following the announcement by Newell to terminate both the DA and MA, it was agreed by mutual consent that Mr Russo should resign. I would like to take this opportunity to thank Mr Russo for his contribution while a director of the Company.

Post-year end, on 5 March 2018, the Company announced that John Gahan, the Group Finance Director, had resigned as a director of the Company with immediate effect. In line with his contractual obligations, John will be available to the Company during his notice period. The Board has commenced the process to recruit a replacement. I wish to place on record the Board's thanks to John for the contribution he has made to the Company since joining in 2010 and wish him all the best in his future endeavours.

People

Our people have worked extremely hard to help us position the Company for the future and to ensure that Sprue thrives with the new independent supply arrangements. I would like to thank all my colleagues for all their hard work and commitment to ensure the smooth transition to the new suppliers. In addition, I wish to also thank all of our colleagues at Flex who have helped to make this project happen in such a short space of time.

Our employees are critical to the successful execution of our strategy. Every year, Sprue delivers millions of home safety products to customers across Europe and our employees ensure the products are delivered to the right specification and to the right place at the right time and at the highest possible quality level. What we have achieved through our people, makes me very proud. Sprue has a unique team of highly talented individuals who are focused and working as one team under Neil Smith's excellent leadership as Group Chief Executive.

Proposed change of the Company's name

The Company proposes to seek shareholder approval at its 2018 Annual General Meeting to change the Company's name to FireAngel Safety Technology Group plc. The proposed change of name reflects the Group's renewed focus on its core brand, FireAngel, and on the development of innovative home safety technology, including its connected home products offering. It also takes the Company back to its early "roots" centered on building value in its core brand, FireAngel.

Summary

Overall, 2017 was a pivotal year for Sprue in which we reset the direction of the Company for the years ahead. The Settlement Agreement with BRK was a disappointing and unfortunate end to our eight year relationship, but it draws a line under it and gives both parties a "clean break" to pursue their own goals and objectives.

The manufacture of Sprue's products at Flex, Poland has commenced and the Far East based supplier has commenced supply of alternatives to the BRK products. As an independent supplier, Flex is willing to work closely with Sprue to improve product quality and help deliver Sprue's exciting new product roadmap whilst reducing the time to market of our new products. We also expect to benefit from shorter lead times and product cost reductions over time as production volumes at Flex increase.

Outlook

Sales in the four months to 30 April 2018 are approximately 20% lower than in 2017, primarily because of lower sales into Germany due mainly to overstocking. Whilst the Board believes that manufacturing Sprue's products at Flex, Poland, plus the investment into technology building blocks will open up growth opportunities, and is the right move for the Group strategically, in the short term, this has impacted the Group's trading as management has been focused on the transition plan, and latterly, on settling the dispute with BRK amicably.

We are pleased to report that production at Flex is under way. The commencement of production at Flex has increased the Group's capital costs with £1.4m in total spent in 2017 on Flex tooling (2016: £0.5m of non-Flex costs).The Group has commenced the sale of alternatives to BRK products sourced from our new supplier in the Far East. For Sprue's customers, it is very much "business as usual", but with renewed focus and emphasis on selling FireAngel branded products.

With disruption from the transition to the new FireAngel range, new product introductions and lower than anticipated sales into Germany in H1 2018, due mainly to overstocking, the Board expects that the Group will report an operating loss for H1 2018. In addition, the Group's sales and operating profit for the full year are likely to be significantly below the most recent market expectations. The Company's 2018 results will be more heavily weighted towards H2 than has been the case in recent years as we install new FireAngel retail ranges, potential new sales emerge and sales into Germany are expected to recover.

However, the Board expects the Company's operating results to improve significantly in 2019 and beyond when there is no BRK distribution fee to pay and, as expected, sales increase into newly emerging channel opportunities and, recover in the Group's key market, Germany, together with sales growth in UK Retail and UK Trade.

Taken in the context of the challenges faced throughout the year and the Settlement Agreement signed with BRK post year end, the Board believes that the Company can look forward with confidence as an independent company once again putting its technology and the FireAngel brand at the heart of its product offering.

The Group has a new sense of direction and purpose. Our employees feel it and our customers see it. We shall continue to invest in our Technical team to deliver the strongest product roadmap in our history and, combined with emerging new partnerships, channels and market opportunities, this will help us become a stronger and more profitable technology-led business. We continue to pursue a number of other potential significant contracts and partnering opportunities and if any of these opportunities are successful, the outlook for the Group's sales and operating profit will therefore improve.

Graham Whitworth
Executive Chairman

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Group Chief Executive's Review

Introduction

Having signed the Settlement Agreement with BRK earlier this month, the management was finally able to close out both a time consuming and a major distraction for the business. The full and final settlement announced on 10 May 2018 means that we can return to executing our plans to drive growth and deliver long term shareholder value despite incurring a one-off £3.8m exceptional charge in these results and a £3.8m cash impact to be absorbed this year.

The revenue in 2017 was disappointing set against an otherwise productive and important year of transition, but despite lower sales, the Group more than doubled its adjusted operating profit* to £4.7m (2016: £2.2m).

Adjusted gross margin increased from 28.6% to 33.1% mainly from a reduction in warranty and screening costs.

The modest growth during 2017 in UK Retail and Trade was encouraging, with a particularly strong Q4 trading period. However, sales into EMEA were 6% lower year on year impacted by slower sales into Germany in H2 2017. The German trade market is shifting dramatically to higher value connected alarms which, in the medium term is good news for Sprue, but, in the short term, will be challenging until our new connected product range targeting this market is available in early 2019.

The demand for connected products in Germany reinforces our connected strategy and the investments we have made to be the European market leader in home safety solutions combining, connecting and complementing our unique technology, products and services through our trusted brands.

We continued to invest in new technology throughout 2017 and purchased further core modules of software from Intamac to enhance our connected homes proposition. This includes software modules which will allow us to introduce a low-cost gateway and increase our market penetration into the B2C market later this year.

In March 2017, the Company announced two new strategic manufacturing agreements which will transform our business and improve Sprue's operational scale and geographic footprint. The Group signed a new manufacturing and supply agreement with Flex in Poland and an agreement with a leading supplier in the Far East. Both agreements afford Sprue greater control and certainty regarding its product roadmap along with manufacturing process and supply chain benefits.

The capital investments made have been significant, but are essential to ensure that we are well set for future growth as an independent business. The Company is committed to purchase approximately £3.6m of tooling and capital equipment at Flex in Poland over the course of 2018 and most of the cash cost will be incurred over the next four months.

**Adjusted operating profit and profit before tax are stated before an exceptional charge for the Settlement Agreement with BRK of £3.8m (2016: £0.2m restructuring charge) and share-based payments charge of £0.4m (2016: £0.6m)*

Revenue growth

Our new product strategy is focused around the development of value added products across our standalone alarms and connected solutions that reflect the trends of customers seeking more *feature-rich* alarms and accessories.

The connected home market commands a price premium compared to the non-connected products currently sold across our core markets. Our connected products can be managed via the FireAngel Connect cloud-based administration system and interact via an app with tablets and smart phones.

The increase in average transaction values through higher specification product and sales mix, particularly through increased sales of carbon monoxide alarms along with Trade and connected products, should enhance both our top line revenue and profit contribution.

The good progress made in securing incremental sales and market share within new sectors, including German Retail, Poland, the Far East and the significant opportunities in which we are currently participating, are important as we extend our reach and reduce our reliance on any particular territory.

The launch of FireAngel technology products under the Siemens brand in Bauhaus, a leading DIY retailer in Germany, during 2017 has been very well received and we plan to expand our business partnership with Siemens. Within the German Trade market, we continue to build the FireAngel "P Line" brand and range of products which were launched in H2 2016. These products are all powered by Panasonic batteries with over 1.5 million units sold to date and, with a product returns rate of only 0.1%, our focus is to build advocacy and confidence around P Line within the German Trade market. Our new connected product range in 2019 will also feature Panasonic batteries and be sold under the FireAngel P Line brand.

New technology

Fire Angel Predict™ which was launched in Germany in February 2018 is reflective of the thinking and direction we are taking the business from a supplier of hardware to a solutions-based connected technology provider.

FireAngel Predict™ has been developed by the Company in-house and represents significant progress in the protection of people and properties from the risk of fire. Using the Company's cloud-based technology and unique predictive algorithm to monitor data in real time over the internet, FireAngel Predict™ identifies properties with an increased risk of fire so appropriate action can be taken *before* a potential incident occurs. The FireAngel Predict™ system improves protection of the occupier and property and potentially avoids the cost of addressing a fire.

This unique, patent pending technology has been developed using data from smoke alarms from past fires in conjunction with self-learning AI technology which will constantly refine and improve the system in the future.

Partnering with SmartThings™

Sprue entered into a partnership with SmartThings™ in September 2017 to certify the FireAngel Z-wave smoke and heat alarms as "Works with SmartThings™" devices, for use with the SmartThings™ platform. This exciting partnership is testament to the strength and trust in our brand and products and will extend the reach and connected products footprint under the FireAngel umbrella.

Control, certainty and cash benefits of our new supply chain

Ahead of the transition to Flex and our new Far East based manufacturer, our product range was reduced by over 50% which will deliver supply chain and operational efficiencies, increase forecast accuracy and significantly reduce the Group's inventory level. Sourcing from Flex in Poland will reduce our supply chain by approximately four weeks, which in turn will further reduce inventory levels.

The decision by Newell to give notice to terminate the DA for BRK and First Alert brands means that the Company no longer has to pay the annual BRK distribution fee representing an annualised saving of £2.9m in cash post-31 March 2018.

Higher levels of automation and product design changes to improve manufacturing efficiency will bring benefits of economies of scale combined with world class manufacturing processes and procedures ensuring consistency of quality and product performance thereby reducing future warranty costs.

Customers and markets

Over the course of 2017, the Board was pleased to secure multiple contract wins with major new customers, including:

- Bauhaus - leading German DIY retailer, marking Sprue's entry into the German retail market;
- Moyne Roberts (Ireland) - strengthening Sprue's position in Trade;
- Tyne & Wear Fire & Rescue Services;
- Bunnings UK and Bunnings New Zealand – enhancing Sprue's leading position in UK Retail and extending our reach in New Zealand

Based on customer feedback, it is clear that the FireAngel brand resonates well and, as a result, will become the central focus of our sales and marketing efforts. FireAngel is a huge brand asset which is trusted by our customers and organisations such as the UK Fire and Rescue services who have been fitting FireAngel products in homes for over 10 years. We will focus investment in the FireAngel brand to access other market sectors and through the rationalisation of other brands, release resources to increase sales of our FireAngel branded products.

Sprue continues to lead in developing effective UK and international marketing campaigns that raise awareness of the dangers of smoke and CO. In the UK, the CO campaign, Project Shout reached over 36 million people while CO campaigns were also launched in France and Germany where the levels of household CO penetration are significantly below those of the UK. A new campaign, "Check The Date" was launched in the UK in September 2017 which aimed to advise people of the need to check the expiry date on their alarms and replace accordingly. The growth of digital channels continues at pace, to which we have adapted and innovated our marketing to improve reach, sales conversion and return on investment.

2018 and beyond

The work involved to move manufacturing to Flex cannot be understated in terms of its importance to Sprue's future growth, but also the tremendous impact it has had across the business. It is a testament to the talent, determination and hard work of our people that we have successfully achieved the transition.

The manufacturing partnership with Flex will deliver significant benefits through more efficient production, shorter lead times, lower inventory and a faster time to market, which, along with a tight control on costs, will help drive greater profitability for the Group in the medium term.

The product roadmap is the strongest Sprue has ever had with a mix of value added enhancements to our current range as well as step change innovation, such as the new unique FireAngel Predict™, which with the close collaboration and support of Flex, we can now bring to the market faster than ever before.

Neil Smith
Group Chief Executive

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Financial Report

Income statement

In 2017, Sprue achieved reduced revenue of £54.3m (2016: £57.1m) affected, in particular, by a slowdown in sales into Germany in H2. Adjusted operating profit* increased to £4.7m (2016: £2.2m). Adjusted gross margin** improved to 33.1% (2016: 28.6%), principally due to a reduction in screening and warranty costs.

Post-year end, and as announced on 10 May 2018 and summarised in the Chairman's Statement, the Company entered into the Settlement Agreement with BRK. Consequently, the Group recorded a £3.8m exceptional charge in these results as part of cost of sales (2016: £0.2m exceptional restructuring charge in administrative expenses) which included £3.4m to write down the value of the remaining BRK inventory as at 30 April 2018 to £nil (as the Company will no longer be selling BRK inventory), provisions of £0.2m to cover the disposal (scrappage) costs of the BRK inventory manufactured before 1 January 2017 and £0.2m to cover the legal and professional fees incurred since 22 March 2018 in respect of the dispute with BRK. Whilst the profit impact on the Group has been fully recognised in these results, the cash cost of the Settlement Agreement amounting to £3.8m will be borne in 2018.

After taking account of exceptional charges, the Group reported a profit before taxation of £0.5m (2016: £1.5m).

In 2017, distribution costs decreased to £1.0m (2016: £1.1m) due to the lower level of sales. Administrative expenses (excluding share based payments charge) were £9.4m (2016: £10.2m) reflecting tight cost control, given the lower sales in the second half of the year.

Despite lower sales compared to 2016, the Group reported an improved adjusted operating profit* of £4.7m (2016: £2.2m) helped by the increase in gross margin and reduction in distribution and administrative expenses in the year.

The Group reported a tax charge of £0.1m (2016: tax credit £0.2m) helped by the surrender of taxable losses and significant R&D tax credits. Basic EPS in 2017 reduced to 1.1p per share (2016: 4.0p per share).

**Adjusted operating profit and profit before tax are stated before the exceptional charge for the Settlement Agreement with BRK of £3.8m (2016: £0.2m restructuring charge included in fixed costs) and share-based payments charge of £0.4m (2016: £0.6m)*

***Adjusted gross margin is stated before the BRK distribution fee of £2.9m (2016: £3.0m) and before the exceptional charge for the Settlement Agreement with BRK of £3.8m (2016: £nil)*

Balance sheet

The continued significant investment in new product development increased the total net book value of other intangible assets at 31 December 2017 to £10.5m (2016: £8.3m), equivalent to 19% of sales or 58% of 2017 gross profit before charging the annual BRK distribution fee and exceptional items. The Board is committed to continue to invest in new products and new technology to drive the future sales of the Group.

Purchased software costs increased to £2.6m (2016: £1.7m) reflecting the £0.9m cost of the additional core software modules purchased from Intamac during the year. A cash payment of £0.3m in early 2018 completed the purchase of Intamac software for a total cash consideration of £2.8m.

The decision to source products from third party contract manufacturers is likely to see an increase in the cost of tooling and capital equipment included in the Group's balance sheet over time. Plant and equipment increased to £2.1m (2016: £0.9m) and reflects the purchase of £1.4m of Sprue specific tooling at Flex in Poland (2016: £nil).

Deferred tax assets reflect timing differences on the charge for share based payments which amounted to £0.3m (2016: £0.6m in total analysed as to £0.2m for share based payments and £0.4m for tax losses). The Group has utilised the tax losses in 2017 and, therefore, the deferred tax asset of £0.4m has been realised.

Stock at 31 December 2017 had reduced to £11.2m (2016: £13.3m) mainly due to the £3.4m book value of BRK inventory written off as a result of signing the Settlement Agreement with BRK.

Despite sales being 5% lower compared to 2016, debtors at 31 December 2017 increased by £4.2m to £17.4m (2016: £13.5m) reflecting:

- Non-payment of £1.7m of overdue debt from one customer which remained unpaid as at 31 December 2017 in respect of sales recorded in H1 2017. The balance of this overdue debt has reduced to approximately £0.9m as at the date of this announcement and the Board expects to recover it in full before 30 June 2018.
- Significant increase in average debtor days from 58 to 72 days reflecting the change in sales mix away from customers on the shortest credit terms of 14 days to customers paying on 60 and 90 day payment terms and the impact of the overdue debt referred to above.
- A £2.0m increase in sales in December 2017 compared to December 2016.

Average creditor days increased slightly during the year to 80 days (2016: 76 days). The Group undertakes to pay its suppliers in line with agreed credit terms.

The Group maintained warranty provisions as at 31 December 2017 of £2.2m (31 December 2016: £4.6m) of which, the largest element related to the expected cost of replacing smoke alarm products over the next two years where an issue in certain batteries supplied by a third party supplier may cause a premature low battery warning chirp. FireAngel warranty returns and the cost of free of charge replacement products in relation to the battery issue announced by the Company in April 2016 were in line with the Board's expectations.

The Board continues to closely monitor the level of product returns by year of manufacture by market. Accounting for warranties remains a critical judgement area as outlined further in the Company's 2017 Annual Report & Accounts. Product returns are in line with the Board's expectations and the warranty provision will continue to unwind over the next couple of years.

Cash Flow

Cash at the end of the year declined by £11.1m (2016: £8.5m decline), principally due to:

- Adverse net movement in debtors (as outlined above) of £4.2m
- Reduction in net stock (as outlined above) of £2.1m
- Acquisition of core software modules from Intamac for £0.9m (2016: £1.6m)
- Continued investment in product development of £2.7m, which includes £0.8m of pre-production set up costs at Flex, Poland (2016: £2.2m)
- Purchase of property plant and equipment, mainly at Flex in Poland, of £1.4m (2016: £0.5m)
- Dividends with a cash cost of £3.7m (2016: £3.7m)

The Group had net cash of £3.3m as at 31 December 2017 (2016: £14.3m) and no debt.

HSBC Bank plc £7m revolving credit facility

In late January 2018, the Group entered into a committed 3 year revolving credit facility with HSBC Bank plc for £7.0m ("RCF") to fund its working capital. On 29 March 2018, the Company drew down £3.0 million under the facility to increase its available short term cash resources which was subsequently repaid in full at the end of the 30 day draw down period. The costs of arranging the facility amounting in total to approximately £0.1m are being amortised over the life of the RCF on a straight line basis.

The RCF has covenants which have been agreed with HSBC and are tested at quarterly intervals on a rolling twelve months basis. The Board considers that, even on a "worst case" basis, it expects the Group to remain comfortably within these covenants throughout the term of the RCF.

By the end of 2018, Sprue will have absorbed the full £3.8m cash cost of the Settlement Agreement. Cash flow in 2018 will be hampered further by the expected significant reduction in sales into EMEA where Sprue's key customer typically pays on 14 day landed terms. The Board expects to draw down part of the RCF in the second half of this year and again in 2019.

Revenue by business unit

The table below summarises the reported revenue for each of the Group's business units and Pace Sensors.

£m	2017	2016	Change	Change %	2017 % sales	2016 % sales
Retail	15.6	15.4	0.2	1%	29%	27%
Trade	7.4	7.2	0.2	3%	14%	13%
UK F&RS	4.5	5.4	(0.9)	-17%	8%	9%
Utilities	1.9	2.1	(0.2)	-10%	3%	4%
Total UK sales	29.4	30.1	(0.7)	-2%	54%	53%
EMEA	21.9	23.3	(1.4)	-6%	40%	41%
Pace Sensors	3.0	3.7	(0.7)	-19%	6%	6%
Total	54.3	57.1	(2.8)	-5%	100%	100%

From 1 January 2018, certain Retail customers are reported through the Trade business unit to reflect how Sprue now manages the customer accounts. The impact of this change is that Retail sales in 2017 would reduce to £10.3m and Trade sales would increase to £12.7m.

The principal changes in revenue in 2017 relate to:

- The £0.2m growth in each of Retail and Trade sales following new account wins in these business units
- UK F&RS in 2016 included a one-off Department of Communities and Local Government contribution of £2.5m which was not repeated in 2017. In addition, the Group reduced product selling prices in 2017 reflecting new tender prices
- Lower than expected sales into EMEA, primarily due to reduced sales into Germany in H2 2017
- CO volumes at Pace Sensors were also slightly lower in 2017

Exchange rates

After deducting a £0.3m loss in respect of the mark to market of forward contracts that mature beyond the balance sheet date, the net impact of exchange rates on operating profit in the year compared to 2016 exchange rates is estimated as a net favourable credit of approximately £0.1m.

Average month end exchange rates against Sterling are summarised below.

	Average for year		Average for H1		Average for H2	
	2017	2016	**2017**	2016	**2017**	2016
Euro	**1.14**	1.23	**1.16**	1.27	**1.12**	1.16
US Dollar	**1.30**	1.36	**1.27**	1.42	**1.33**	1.27
Canadian $	**1.68**	1.80	**1.69**	1.87	**1.68**	1.69

This table shows that on average in 2017, Sterling weakened against the Euro by 7%, thereby increasing Sprue's revenue and profit on its Euro denominated income. However, over the same period, Sterling also weakened against the US Dollar by approximately 4% which increased the Sterling equivalent cost of Sprue's US Dollar sourced CO detector purchases from Pace Technology and smoke and accessory products (and BRK CO detectors) from Detector Technology Limited.

Where possible, Sprue has sought to increase 2018 selling prices to offset the product cost inflation as a result of Sterling's weakness against the US Dollar and the higher than expected on costs of sourcing products from Flex. If Sterling strengthens against the US Dollar, Sprue will see the benefit in reduced Sterling product costs and vice versa.

John Gahan
Group Finance Director

Signed on behalf of the Board

Neil Smith
Group Chief Executive

Graham Whitworth
Executive Chairman

SPRUE AEGIS

Consolidated Income Statement
Year Ended 31 December 2017

	Notes	2017 £000	2016 £000
Revenue	3	**54,277**	57,106
Cost of sales excluding BRK distribution fee and exceptional charge		**(36,309)**	(40,789)
BRK distribution fee		**(2,915)**	(2,982)
Exceptional charge for Settlement Agreement with BRK	17	**(3,777)**	-
Total cost of sales		**(43,001)**	(43,771)
Gross profit		**11,276**	13,335
Gross margin % pre BRK distribution fee & exceptional charge		***33.1%***	*28.6%*
Distribution costs		**(1,007)**	(1,083)
Administrative expenses excluding share-based payments charge		**(9,390)**	(10,182)
Share-based payments charge		**(358)**	(563)
Total administrative expenses*		**(9,748)**	(10,745)
Total fixed costs		**(10,755)**	(11,828)
Profit from operations pre-exceptional charge for the Settlement Agreement with BRK of £3.8m (2016: £0.2m restructuring charge) and pre share-based payments charge £0.4m (2016: £0.6m)		**4,656**	2,236
Profit from operations		**521**	1,507
Finance income		**24**	66
Profit before tax		**545**	1,573
Income tax (charge) / credit	4	**(57)**	246
Profit attributable to equity owners of the parent		**488**	1,819
Earnings per share (pence)	5		
From continuing operations:			
Basic		**1.1**	4.0
Diluted		**1.1**	4.0

All amounts stated relate to continuing activities.

**Total administrative expenses in 2016 include a restructuring charge of £0.2m*

Continuing operations

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

SPRUE AEGIS

Consolidated Statement of Comprehensive Income
Year Ended 31 December 2017

	2017 £000	2016 £000
Profit for the year	**488**	1,819
Items that may be reclassified subsequently to profit and loss:		
Exchange differences on translation of foreign operations (net of tax)	**(85)**	393
Other comprehensive (expense) / income for the year	**(85)**	393
Total comprehensive income for the year	**403**	2,212

SPRUE AEGIS

Consolidated Statement of Financial Position
As At 31 December 2017

	NOTES	2017 £000	2016 £000
Non-current assets			
Goodwill		169	169
Other intangible assets	6	10,474	8,271
Purchased software costs	6	2,575	1,649
Plant and equipment	7	2,077	916
Deferred tax assets		273	625
		15,568	11,630
Current assets			
Inventories	8	11,201	13,316
Trade and other receivables	9	17,366	13,451
Current tax asset		625	287
Derivative financial assets	15	-	1
Cash and cash equivalents		3,273	14,333
		32,465	41,388
Total assets		48,033	53,018
Current liabilities			
Trade and other payables		(16,472)	(16,741)
Current tax liabilities		(15)	(43)
Provisions	10	(1,507)	(2,800)
Derivative financial liabilities	15	(364)	(88)
		(18,358)	(19,672)
Net current assets		14,107	21,716
Non-current liabilities			
Provisions	10	(687)	(1,793)
Deferred tax liabilities		(1,974)	(1,569)
		(2,661)	(3,362)
Total liabilities		(21,019)	(23,034)
Net assets		27,014	29,984
Equity			
Share capital		918	917
Share premium		12,729	12,713
Foreign exchange reserve		179	264
Retained earnings		13,188	16,090
Total equity attributable to the owners of the parent		27,014	29,984

SPRUE AEGIS

Consolidated Statement of Changes in Equity
Year Ended 31 December 2017

	Share Capital £000	Share premium £000	Foreign exchange reserve £000	Retained earnings £000	Total £000
Balance at 1 January 2016	917	12,713	(129)	17,596	31,097
Profit for the year	-	-	-	1,819	1,819
Net foreign exchange losses from overseas subsidiaries	-	-	393	-	393
Total comprehensive income for the year	-	-	393	1,819	2,212
Transactions with owners in their capacity as owners:					
Dividends	-	-	-	(3,668)	(3,668)
Total transactions with owners in their capacity as owners	-	-	-	(3,668)	(3,668)
Share-based payments charge	-	-	-	563	563
Deferred tax credit on share-based payments charge	-	-	-	(220)	(220)
Balance at 31 December 2016	**917**	**12,713**	**264**	**16,090**	**29,984**
Profit for the year	-	-	-	488	488
Net foreign exchange gains from overseas	-	-	(85)	-	(85)
Total comprehensive income for the year	-	-	(85)	488	403
Transactions with owners in their capacity as owners:					
Dividends	-	-	-	(3,670)	(3,670)
Issue of shares	1	-	-	-	1
Premium arising on issue of equity shares	-	16	-	-	16
Total transactions with owners in their capacity as owners	1	16	-	(3,670)	(3,653)
Share-based payments charge	-	-	-	358	358
Deferred tax credit on share-based payments	-	-	-	(61)	(61)
Current tax credit on share- based payment		-	-	(16)	(16)
Balance at 31 December 2017	**918**	**12,729**	**179**	**13,188**	**27,014**

SPRUE AEGIS

Consolidated Cash Flow Statement
Year Ended 31 December 2017

	2017 £000	2016 £000
Profit before tax	**545**	1,573
Finance income	**(24)**	(66)
Operating profit for the year	**521**	1,507
Adjustments for:		
Depreciation of property, plant and equipment	**271**	281
Amortisation of intangible assets	**465**	332
Reduction / (increase) in fair value of derivatives	**277**	(10)
Share-based payments charge	**358**	563
Operating cash flow before movements in working capital	**1,892**	2,673
Movement in inventories	**2,116**	2,241
Movement in receivables	**(4,188)**	(1,734)
Movement in provisions	**(2,405)**	(2,200)
Movement in payables	**(236)**	(1,460)
Cash used by operations	**(2,821)**	(480)
Income taxes received / (paid)	**376**	(56)
Net cash used from operating activities	**(2,445)**	(536)
Investing activities		
Purchase of intangible assets	**(2,670)**	(2,207)
Purchase of software costs	**(925)**	(1,649)
Purchase of property, plant and equipment	**(1,432)**	(497)
Interest received	**24**	66
Net cash used on investing activities	**(5,003)**	(4,287)
Financing activities		
Proceeds from issue of ordinary shares	**17**	-
Dividends paid	**(3,670)**	(3,668)
Net cash used on financing activities	**(3,653)**	(3,668)
Net decrease in cash and cash equivalents	**(11,101)**	(8,491)
Cash and cash equivalents at beginning of year	**14,333**	22,403
Non-cash movements – foreign exchange	**41**	421
Cash and cash equivalents at end of year	**3,273**	14,333

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 2017 and 2016 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 as adopted by the European Union ("IFRS"). The statutory accounts for the year ended 31 December 2017 have been audited and approved, but have not yet been filed.

The statutory accounts for the year ended 31 December 2016 have been delivered to the Registrar of Companies. These accounts were prepared under IFRS.

The Group's audited financial statements for the year ended 31 December 2017 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 14 May 2018.

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 2016 except where disclosed otherwise in this note.

With effect from 1 January 2017, the Group adopted the "units of production" method for amortising product development costs and moved away from straight line amortisation. The change in policy is intended to ensure that the amortisation charge of product development costs more closely correlates to the gross benefit generated on the sale of products which incorporate the Group's technology. Essentially, the units of production methodology more closely matches the consumption of the economic benefit of the Group's technology with the gross profit generated from the sale of the Group's products. The net impact on the 2017 results as a result of changing from straight line to units of production for the amortisation of product development costs is not material.

Bill and hold sales

In certain situations, the Group recognises revenue on a "bill and hold" basis whereby the related inventory remains at the Group's premises for a period of time. Revenue is only recognised on this basis when the customer has taken title to the goods and accepted billing, it is probable that delivery will be made, the goods are on hand and separately identified, the customer acknowledges the deferred delivery and normal payment terms apply.

Critical accounting estimates and areas of judgement

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 estimates and assumptions at the end of the accounting period that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Full recoverability of overdue debts

As at 31 December 2017, the Group had permitted certain customers to extend their credit terms. Specifically, one customer had extended credit terms on approximately £1.7m of overdue debt which remained unpaid at year end (31 December 2016: £nil) in respect of sales recorded in H1 2017. The customer has continued to make regular repayments against the debt and the Board expects that the H1 2017 overdue debt will be repaid in full before 30 June 2018.

Warranty provisioning of FireAngel products

In April 2016, the Company 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. The Board is keen to stress that this is not a safety critical issue.

As a result of the battery issue, to support the Company's customer service obligations, the Board increased the Group's total warranty provisions as at 31 December 2015 to £6.8m and has continued to provide free of charge replacement products to compensate customers who experience issues with the Group's products. The Group's total warranty provision as at 31 December 2017 reduced to £2.2m after £2.4m of the 2016 year end warranty provision was utilised during the year.

The failure mode in the battery in affected smoke alarms typically occurs after around three years from the date of battery manufacture so the vast majority of product returns in 2017 relate to 2012 and 2013 production where returns of both years of production are in decline. Returns of 2014 and 2015 products in 2017 were not as significant but are expected to increase over the next couple of years.

The expected terminal rate of return % for each year of production was estimated by Sprue's Technical team and remains within our original expectations.

To prevent the issue happening again, Sprue's supplier has introduced additional screening processes on the production line prior to the battery being fitted into finished smoke alarms.

We have also reviewed our returns processes to reduce the cost of servicing product returns and have identified a number of significant improvements that will reduce the cost of servicing the warranty in the field going forwards.

With specific reference to FireAngel products, the determination of 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. 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 over time as required.

The provision relates mainly to the high impedance 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. The Board is not aware of any other major warranty issues but has continued to expense FireAngel warranty at approximately 1% of sales in the year.

Impairment of non-financial assets

At each reporting date, the Group reviews the carrying amounts of its tangible and intangible assets (including goodwill) to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the

Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest Group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Intangible assets with indefinite useful lives and other intangible assets not yet available for use are tested for impairment annually, and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value in use.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

During 2017, the Group did not record any material impairment charges upon review of its tangible and intangible assets.

The Board notes that the Company has significant intangible assets on the balance sheet at year end which amounted to a net book value £2.2m of connected home intangibles not being depreciated and a net book value of £1.8m of connected home intangible assets which are being depreciated. The Board expects that in future, the vast majority of products sold will in some way be connected (through Wisafe II, Z wave or Zigbee etc) and given that the Group already has a connected home solutions product offering which is working, the Board believes that the carrying value of connected homes solutions intangibles is not impaired. This assumption will be reviewed over time.

With effect from 1 January 2017, the Group adopted the "units of production" method for amortising product development costs and moved away from straight line amortisation. The change in policy is intended to ensure that the amortisation charge of product development costs more closely correlates to the gross profit generated on the sale of products which incorporate the Group's technology. Essentially, the units of production methodology more closely matches the consumption of the economic benefit of the Group's technology. The net impact on the 2017 results as a result of changing from straight line to units of production for the amortisation of product development costs is not material. However, the change in accounting policy will reduce the amortisation charge in respect of connected homes products in 2018 and potentially 2019 as it may take several years before sales of connected home product solutions increase significantly.

Inventory provision

The Group reviews each stock SKU on a line by line basis taking into account sales and gross margins achieved on every SKU over the past 24 months and the expected sales of each SKU over the next 12 months (and beyond) and the likely gross margin thereon.

Discontinued SKUs are fully provided for (at 100% of the cost) where the potential recovery of the book value is not likely to be achieved in full. In addition, where stock is identified as being potentially slow moving, a 10% provision is typically booked against the cost of the stock. The Group's stock provisioning policy reviews unit sales and margins on each line of stock and considers what sales are likely to be achieved in the future, and at what margin, before determining if a stock provision is required.

Historically, on eventual sale of slow moving SKUs, the Group has not experienced any major issues where the net realisable value of stock ultimately transpires to be less than the book value of the stock (plus associated rework costs). Moreover, where stock has been identified as slow moving (for example the Group's own French stock), 10 year products are typically reworked into 7 year or 5 year product packaging and sold as such still at a positive net margin. Even after rework costs, the net realisable value of slow moving SKUs typically exceeds the product costs plus rework costs added together. The Group is fortunate that products are certified to common European standards (and certain country standards) and many products are saleable in markets other than the original market destination.

The inventory provision as at 31 December 2017 was £3.7m (2016: £0.7m) and effectively included a 100% provision to write down the value of BRK stock as at 30 April 2018 retained by the Group to £nil as the Group no longer sells BRK products

Going concern

In determining whether the Group and Parent Company's financial statements can be prepared on a going concern basis, 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 borrowing facilities. The key factors considered by the Directors were:

- the financial consequences of the Settlement Agreement, including the £3.8m cash cost in 2018;
- the latest expected trading performance for 2018 and beyond, as described in the outlook section of the Executive Chairman's statement;
- the availability of currently committed banking facilities and actual and projected compliance with material terms attaching to those facilities;
- the degree of headroom offered by current cash reserves and available banking facilities;
- the implications of the current economic environment and future uncertainties around the Group's revenues and profits;
- the consequence of reasonably foreseeable downside sensitivities including lower than expected trading performance and adverse movements in working capital; and
- the potential actions that could be taken in the event that revenues or gross profits are worse than expected, to ensure that operating profit and cash flows are protected.

The Group's review of forecasts and projections, taking account of the £3.8m cash cost of the Settlement Agreement with BRK which will be borne in 2018 and reasonably predictable changes in trading performance (even after applying downside sensitivities), 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. Even after applying downside sensitivities, the Company is forecast to remain within the HSBC Bank plc revolving credit facility banking covenants.

Consequently, at the date of this report, the Directors have a reasonable expectation that the Group and Parent Company have adequate resources to continue in business for the foreseeable future. Accordingly, the financial statements have been prepared on the going concern basis.

New standards, amendments and interpretations

The following new standards and amended standards, none of which have had a material impact on these financial statements, are mandatory and relevant to the Group for the first time for the financial period commencing 1 January 2017:

- Amendments to IAS 12: Recognition of Deferred Tax Assets for Unrealised Losses
- Amendments to IAS 7: Disclosure Initiative

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):

- IFRS 9: Financial Instruments (effective 1 January 2018)
- IFRS 15: Revenue from contracts with customers (effective 1 January 2018)
- IFRS 16: Leases (effective 1 January 2019)
- Clarifications to IFRS 15: Revenue from Contracts with Customers (effective 1 January 2018)
- Amendments to IFRS 2: Classification and measurement of share-based payment transactions (effective 1 January 2018)
- Annual improvements 2014-2016 (effective 1 January 2019)

- IFRIC 22: Foreign currency transactions and advance consideration (effective 1 January 2019)
- Annual improvements 2015-2017 (effective 1 January 2019)

With regards IFRS 15, this brings into play significantly different principles for determining how revenue should be recognised and how it is measured in comparison with IAS 18. The Group has commenced a review of its principal customer contracts and initial indications are that the recognition of revenue is not affected by the adoption of IFRS 15 for the vast majority of sales.

However, it is noted that under IFRS 15, the sales and profit on "bill and hold sales" is only to be recognised if the bill and hold conditions have been met, which includes a condition that the products under the bonded sale are not capable of sale to another customer. This additional condition could lead to the deferral of certain bill and hold sales when compared to when they are recognised under IAS18. The impact of this change in policy is not expected to have a material impact on the Group's results.

IFRS 16 'Leases' will impact the financial statements and the relevant disclosures as the Group has operating leases that are to be disclosed and identified separately on the face of the Consolidated Financial Position. The Group is still in the process of quantifying the impact and deciding on which transitional exemptions it will take. Given the relatively low level of operating lease commitments of the Group, the adoption of IFRS 16 in 2019 is expected to slightly increase the Group's reported operating profit (compared to current reporting requirements) whilst the implicit interest cost of the leases will go "below the line" as part of "interest". The Directors will provide further guidance on the adoption of this standard in due course.

The Directors anticipate that the adoption of the remaining standards and interpretations in future periods will have no material impact on the recognition and measurement of assets, liabilities and their associated performance 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 based throughout the UK, Continental Europe and in a number of other countries outside 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 of the home safety products market in Europe.

Revenue and gross profit for each of the Group's business units are reviewed by the Board and rolled up into consolidated financial information with non-business unit costs included to arrive at the results that investors see. Business unit reporting to the Board generally excludes information on overheads by business and other income statement information, which is all reported on a consolidated basis. Assets and liabilities are also generally reported to the Board on a consolidated basis.

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

	2017 £000	2016 £000
Continuing operations:		
United Kingdom	29,362	30,080
Continental Europe	20,474	20,657
Rest of World	4,441	6,369
	54,277	57,106

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

	2017 £000	2016 £000
Continuing operations:		
UK	15,108	10,720
Canada	187	285
Non-current assets	15,295	11,005

4. Income tax

The major components of income tax charge / (credit) in the Income Statement are as follows:

	2017 £000	2016 £000
Current tax		
UK corporation tax credit	(624)	(99)
UK – Adjustments in respect of prior periods – charge / (credit)	(332)	(46)
Foreign tax charge	190	267
	(766)	122
Deferred tax		
Origination and reversal of temporary differences	823	(368)
Income tax charge / (credit)	**57**	(246)

Domestic income tax is calculated at 19.25% (2016: 20%) of the estimated assessable profit for the year.

5. Earnings per share

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

Earnings from continuing operations	2017 £000	2016 £000
Earnings for the purposes of basic and diluted earnings per share (profit for the year attributable to owners of the parent)	**488**	1,819

Number of shares	'000	'000
Weighted average number of ordinary shares for the purposes of basic earnings per share	45,905	45,855
Effect of dilutive potential ordinary shares:		
Deemed issue of potentially dilutive shares	30	71
Weighted average number of ordinary shares for the purposes of diluted earnings per share	**45,935**	45,926

	2017 pence	2016 pence
Basic earnings per share (pence)	1.1	4.0
Diluted earnings per share (pence)	1.1	4.0

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 number of 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 and directors where the exercise price is less than the average market price of the Company's ordinary shares during the period.

6. Intangible assets

	Product development costs £000	Purchased software costs £000	Computer software costs £000	Total £000
Cost				
At 1 January 2016	8,095	-	290	8,385
Additions	2,178	1,649	29	3,856
At 31 December 2016	10,273	1,649	319	12,241
Additions	**2,601**	**925**	**68**	**3,594**
At 31 December 2017	**12,874**	**2,574**	**387**	**15,835**
Amortisation				
At 1 January 2016	1,762	-	227	1,989
Amortisation for the year	300	-	32	332
At 31 December 2016	2,062	-	259	2,321
Amortisation for the year	**430**	**-**	**35**	**465**
At 31 December 2017	**2,492**	**-**	**294**	**2,786**
Carrying amount				
At 31 December 2016	8,211	1,649	60	9,920
At 31 December 2017	**10,382**	**2,574**	**93**	**13,049**

A summary of intangible costs as at 31 December 2017 is shown overleaf.

Except as outlined below, intangible assets are typically amortised between 7 to 15 years depending on the Group's assessment of the likely period of time over which the benefit from the technology is expected to be realised.

Impairment review

During 2017, the Group did not record any material impairment charges upon review of its product development cost intangible assets.

As part of the Group's impairment review, the Group prepares a schedule that compares the net book value of each intangible asset with the gross profit which is expected to be derived from the sale of products in the next 12 months that use the relevant intangible asset. The purpose of this review is to ensure that the value of the intangible asset is likely to be "recovered" within the foreseeable future. In many cases, the expected gross profit within the next 12 months from the sale of products that use the intangible asset is significantly greater than the net book value of the individual intangible asset on the balance sheet. This provides significant comfort that the carrying value of the intangible is reasonable and, therefore, is not impaired.

Given the gradual take up of Connected Homes Solutions technology which is expected to increase over time, the Group introduced "units of production" amortisation in 2017 as outlined further in Note 2.

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	Projects being amortised								Projects not currently being amortised			
	Connected Home £000	Wi-safe 2 £000	Nano £000	Mains Powered £000	Smoke Sensing products £000	CO Sensing Products £000	Other £000	Total £000	Other Projects £000	Connected Homes £000	Total £000	Grand Total £000
Cost												
At 1 January	1,798	1,951	1,403	1,280	1,360	280	1,314	9,386	1,491	1,045	2,536	11,922
Technical Costs Capitalised	-	25	-	-	-	-	94	119	498	956	1,454	1,573
Employment Costs Capitalised	54	2	-	-	104	-	76	236	1,469	248	1,717	1,953
Total Additions	54	27	-	-	104	-	170	355	1,967	1,204	3,171	3,526
At 31 December	**1,852**	**1,978**	**1,403**	**1,280**	**1,464**	**280**	**1,484**	**9,741**	**3,458**	**2,249**	**5,707**	**15,448**
Amortisation												
At 1 January	2	324	19	72	352	66	1,227	2,062	-	-	-	2,062
Charge	30	126	40	52	126	31	25	430	-	-	-	430
At 31 December	**32**	**450**	**59**	**124**	**478**	**97**	**1,252**	**2,492**	**-**	**-**	**-**	**2,492**
Carrying amount												
At 1 January	1,796	1,627	1,384	1,208	1,008	214	87	7,324	1,491	1,045	2, 536	9,860
At 31 December	**1,820**	**1,528**	**1,344**	**1,156**	**986**	**183**	**232**	**7,249**	***3,458**	**2,249**	**5,707**	**12,956**
% of total	*14%*	*12%*	*10%*	*9%*	*8%*	*1%*	*2%*	*56%*	*27%*	*17%*	*44%*	*100%*

**Analysed on the following pages*

Projects being amortised

The following is a high level summary of the projects being amortised which are set out in the table above:

Connected Home Solutions ("CHS")

CHS products connect a range of Sprue's own products through its interface gateway technology to the internet. Sprue has an app for users which works on any Android or iOS device which enables the products to be monitored in real time.

Sprue has expanded the skills and capabilities of its Technical team to accelerate CHS product development. The total net book value of projects being amortised with CHS technology as at 31 December 2017 amounted to approximately £1.8m (2016: £1.8m).

Wi-safe 2

Wi-safe 2 (including products using Wi-safe 2 capabilities) are an enhancement and development on the Group's Wi-safe I technology with a combined net book value of approximately £1.5m as at 31 December 2017 (2016: £1.6m). Wi-safe 2 is a core piece of technology which is expected to underpin a number of key products and accessories going forwards, including the Group's product offering in the Connected Homes arena.

Nano

Nano is the Group's miniaturised CO sensor developed by Sprue's wholly owned subsidiary in Canada, Pace Sensors. The Nano went into production into finished CO detectors in November 2016. The net book value of Nano technology was approximately £1.3m as at 31 December 2017 (2016: £1.4m) and represents the costs incurred in the development of the CO sensor and the final development of finished CO products that incorporate the sensor.

Mains powered products

Mains powered products include the SONA range of mains powered products which as at 31 December 2017 had net book value of approximately £1.2m (2016: £ 1.2m).

Smoke sensing products

The net book value of non-mains powered smoke sensing products (heat, ionisation optical products) had net book value as at 31 December 2017 of approximately £1.0m (2016: £1.0m). This category includes all Sprue's own branded FireAngel developed products.

CO sensing products

The net book value of CO sensing products as at 31 December 2017 was approximately £0.2m (2016: £0.2m), which includes Sprue's 10 year life CO alarm, the British Gas developed CO alarm and CO sensing products currently under development.

Other projects

The net book value of other projects amounted to approximately £0.2m as at 31 December 2017 (2016: £0.1m).

Projects not currently being amortised

Product development costs and other intangible assets not yet available for use are tested for impairment annually, and are assessed whether there is any indication that the asset may be impaired. This assessment includes consideration of the likely cost of completing the project, the time to market and an assessment of the potential sales and gross profit opportunity using the relevant technology.

Assessing the potential sales of products like Sprue's CHS technology is inherently more difficult than products where the "run rate" of sales is already well known and the pattern of sales is established. The Board expects that the take up of CHS products will increase over time as the technology gradually becomes "mainstream". Predicting exactly what year this is likely to happen is difficult to assess but the general market trend is one that is expected for most electrical products in the home to all be connected to the internet

Other projects

Other projects with cost and net book value of approximately £3.5m as at 31 December 2017 (2016: £1.5m) includes the major project development activities of the Group, including "Gen 5" costs of £1.1m (the next generation major product platform), Flex pre-production costs of £0.8m and other product development which makes up the balance of £1.6m (split between circa 15 different projects).

In 2017, the Group incurred approximately £0.8m of costs by its Technical and Project Management teams in readying Flex to produce Sprue products and in readying the Far East based supplier to produce replacements to the BRK range of products. Such costs have been included within intangible assets and are to be amortised over 4 years from when Sprue starts selling such products in 2018.

Many of the products to be produced by Flex include the products that were being made in China but which reflect changes in components, or suppliers, or change in design to improve the design for manufacture. The transition of manufacturing to Flex has been a considerable undertaking which has involved a substantial proportion of the Group's Technical team working in close collaboration with Flex.

The Board expects that the quality of Sprue's own products made at Flex will be better than products made in China and that, over time, the Group will see significant reductions in product costs as further improvements from enhanced design for manufacture, waste reduction, consolidation of component buying power come to bear. In addition, manufacturing in Europe, closer to our core customers and our team of 30 engineers in Coventry, will help keep Sprue closer to the manufacturing of its products.

Connected Homes

Connected Homes technology which is not currently in use includes approximately £2.2m as at 31 December 2017 (2016: £1.0m) in total of specific product development cost and Intamac software costs which are still under development.

7. Tooling, plant and equipment

	Tooling £000	Office equipment £000	Motor vehicles £000	Fixtures & fittings £000	Total £000
Cost					
At 1 January 2016	-	979	5	323	1,307
Additions	-	389	-	108	497
Disposals	-	(16)	-	-	(16)
At 31 December 2016	-	1,352	5	431	1,788
Additions	**1,382**	**48**	**7**	**1**	**1,438**
Disposals	**-**	**-**	**-**	**-**	**-**
At 31 December 2017	**1,382**	**1,400**	**12**	**432**	**3,226**
Accumulated Depreciation					
At 1 January 2016	-	478	4	85	567
Depreciation charge for the year	-	225	1	55	281
Disposals	-	(15)	-	-	(15)
Effect of exchange rates	-	39	-	-	39
At 31 December 2016	-	727	5	140	872
Depreciation charge for the year	**-**	**219**	**2**	**51**	**271**
Disposals	**-**	**-**	**-**	**-**	**-**
Effect of exchange rates	**-**	**4**	**-**	**1**	**5**
At 31 December 2017	**-**	**950**	**7**	**192**	**1,149**
Net book value					
At 31 December 2016	-	625	-	291	916
At 31 December 2017	**1,382**	**450**	**5**	**240**	**2,077**

The total depreciation expense of £271,000 (2016: £281,000) has been charged to administrative expenses.

Tooling at the Group's supplier, Flex, Poland has not been depreciated during the year as it was not brought into use during the year.

The Company is committed to purchase approximately £3.6m of tooling and capital equipment at Flex in Poland over the course of 2018, most of the cash cost will be incurred over the next four months.

8. Inventories

	2017 £000	2016 £000
Raw materials	229	236
Work-in-progress	494	370
Finished goods	14,130	13,404
Total gross inventories	14,853	14,010
Inventory provisions	(3,652)	(694)
Total net inventories	11,201	13,316
Inventory provision % of total gross inventory	24.6%	4.9%

Pace Sensors, the Group's wholly owned subsidiary in Canada manufactures carbon monoxide sensors ("CO sensors") for use in the Group's CO detectors. The CO sensors are shipped to Pace Technology, an independent third party supplier, based in China, for assembly into finished CO detectors, which are then purchased by Sprue in the UK. The Group does not maintain a provision for unrealised profit in CO sensors within finished CO detector stock, as CO sensors are sold to an independent third party, Pace Technologies *before* being acquired as finished CO detector products and put into stock by Sprue.

9. Trade and other receivables

	2017 £000	2016 £000
Trade receivables	16,634	13,003
Other debtors	293	47
Prepayments	439	401
Trade and other receivables	17,366	13,451

As at 31 December 2017, approximately £1.7m of debt in respect of sales to one customer recorded in the first half of 2017 was overdue. The balance of this overdue debt has reduced to approximately £0.9m as at the date of this announcement and the Board expects to recover it in full before 30 June 2018.

10. Warranty provisions

	FireAngel warranty provisions £000	BRK Brands warranty Provisions £000	Total £000
At 1 January 2016	6,463	330	6,793
Net utilisation of provision	(2,130)	(70)	(2,200)
At 31 December 2016	4,333	260	4,593
Net (utilisation of) / increase in provision	(2,416)	17	(2,399)
At 31 December 2017	**1,917**	**277**	**2,194**

The total warranty provision is classified between less than one year and greater than 1 year as follows:

	2017 £000	2016 £000
Current provision	**1,507**	2,800
Non-current provision	**687**	1,793
Total warranty provisions	**2,194**	4,593

Review of warranty provision

It is necessary to form a view on matters which are inherently uncertain, such as the returns profile over time, the final return rate, whether the product return rates 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 although with the known battery warranty issue (which is the majority of the provision), the Board has considerably more experience of the returns rates having monitored product returns by year of manufacture by market for several years. Consequently, the continued appropriateness of the underlying assumptions is reviewed on an ongoing basis against actual experience and other relevant evidence and adjustment made to the provision over time as required.

The Board notes that, in total, the expected terminal rate of product returns is still in line with its expectations, although returns in Germany are higher, and returns in the UK are lower than originally expected.

11. Share capital

Authorised:	Company 2017 Number '000	Company 2016 Number '000
100,000,000 ordinary shares of 2p each		
Ordinary shares in issue:		
As at 1 January	45,855	45,855
Issue of shares in respect of share options exercised	50	-
As at 31 December	**45,905**	45,855

Issued and Fully Paid ordinary shares of 2p each:	£000	£000
As at 1 January	917	917
Issue of share capital in respect of share options exercised	1	-
As at 31 December	**918**	917

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

12. Options

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

	2017		2016	
	Options '000	Weighted average exercise price	Options '000	Weighted average exercise price
Outstanding at 1 January	1,952	97p	2,025	102p
Exercised during the year	(50)	35p	-	200p
Granted during the year	-	-	-	2p
Forfeited during the year	-	-	(73)	200p
Outstanding and exercisable at 31 December	**1,902**	**99p**	1,952	97p

Details of the share options outstanding at the end of the year are as follows:

Grant date	Outstanding at start of year	Exercised during the year	Granted during the year	Forfeited during the year	Outstanding at end of year	Expiry date	Exercise price
Directors' share options							
25/04/2014	319,445	-	-	-	**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	607,614	-	-	-	**607,614**	28/04/2021	200p
03/06/2015	45,000	-	-	-	**45,000**	03/06/2025	2p
03/06/2015	30,000	-	-	-	**30,000**	03/06/2020	2p
	1,952,059	(50,000)	-	-	**1,902,059**		

13. Dividends

On 7 July 2017, a final dividend of £2.5m, 5.5 pence per share, was paid to shareholders. On 27 October 2017 an interim dividend of £1.1m, 2.5 pence per share, was paid to shareholders.

In respect of the year ended 31 December 2017, the Directors are not recommending the payment of a final dividend. The total dividend for 2017 is therefore 2.5 pence per share (2016: 8.0 pence per share).

14. Foreign currency

The Group continues to generate significant amounts of Euros in excess of its Euro payment requirements and is exposed to movements between GBP and the USD which can significantly affect the Group's product cost of sales and Sterling and the Euro which affects its margins on sales into Continental Europe. The Group has forward contracts in place to help manage its net foreign exchange rate exposure.

15. 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 therefore be read in conjunction with the Group's financial statements as at 31 December 2017 when available in due course. There have been no changes to the Group's risk management policies since the year ended 31 December 2017.

The Group's bank performs the valuations of financial derivatives for financial reporting purposes.

The total net loss on forward contracts maturing beyond the balance sheet date which has been recognised in the operating result for the year ended 31 December 2017 was £0.3m (2016: £nil) and is included within "Cost of Sales".

16. Related parties: Newell Brands

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.

Newell Brands has the right to representation on the Company's board of directors and to jointly nominate a second director for appointment to the Sprue Board provided it owns at least 12% of the issued share capital of the Company. Consequently, the Directors consider that Newell Brands is a related party. Purchases between related parties are made under contractual arrangements negotiated on an arm's length basis.

Newell Brands represents the single largest supplier to the Group supplying a significant proportion of the Group's purchased products which are purchased in Sterling albeit the Sterling cost is linked to the GBP / USD exchange rate through an exchange rate sharing mechanism. Sales of goods in 2016 relate to Newell Brands wholly owned subsidiary, Mapa Spontex, which is based in France. There were no sales to Mapa Spontex in 2017.

Newell Brands is a party to the Settlement Agreement announced on 10 May 2018.

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

	Newell Brands	
	2017	2016
	£000	£000
Sales of goods in year	**-**	196
Purchases of goods in year including engineering fees	**23,521**	19,534
Distribution agreement fee	**2,915**	2,982
Dividends payable	**859**	912
Amounts owed to related parties at year end	**6,839**	7,670

17. Post balance sheet events

HSBC £7m revolving credit facility

In late January 2018, the Group entered into a committed 3 year revolving credit facility with HSBC Bank plc for £7.0m ("RCF") to fund its working capital. On 29 March 2018, the Company drew down £3.0 million under the facility to increase its available short term cash resources which was subsequently repaid in full at the end of the 30 day draw down period. The costs of arranging the facility amounting in total to approximately £0.1m are being amortised over the life of the RCF.

Settlement Agreement

As announced on 10 May 2018, the Group entered into a Settlement Agreement with BRK. In summary, and in consideration for a full and final settlement of all matters between the parties, it has been agreed that:

- BRK will purchase from Sprue all BRK inventory manufactured from 1 January 2017 for £1.02 million to be paid by way of deduction from payments due by Sprue to BRK under the terms of the DA, save for 3,097 units required by Sprue for its ongoing warranty purposes;

- Sprue will provide warranty support to its customers on all BRK products manufactured before 1 April 2018 and provide transitional support to ensure an orderly handover as part of the Settlement Agreement;

- Sprue will dispose of all BRK inventory manufactured before 1 January 2017 at its own cost, save for 4,857 units required by Sprue for its ongoing warranty purposes;

- BRK approves the sale by Sprue of excess stock of Sprue's CO products using BRK's brands valued at approximately £300,000 for a period of 6 months;

- Sprue grants BRK a 12 month non-exclusive licence for its relevant intellectual property, including registered patents and design registration; and

- Sprue will pay the outstanding balance of payments, amounting to a total of £10,972,484.88 and $71,071, owed to BRK under the terms of the DA and the MA in monthly instalments by 24 December 2018.

As a result of the Settlement Agreement, the Company recorded a £3.8m exceptional charge as part of cost of sales in these results (2016: £nil) which includes £3.4m to write down the book value of remaining BRK inventory as at 30 April 2018 to £nil (as Sprue will no longer selling BRK inventory), provisions of £0.2m to cover disposal (scrappage) costs of the BRK inventory and £0.2m to cover the Group's legal and professional fees since 22 March 2018 in respect of the dispute with BRK.

18. Date of approval of financial information

The financial information covers the period 1 January 2017 to 31 December 2017 and the results were approved by the Board on 14 May 2018. Further copies of the financial information 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
N Rutter	Chief Product Officer

Non-executive

W Payne
A Silverton
J Shepherd

Corporate Directory

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SPRUE AEGIS

Shareholder information

SHAREHOLDER ENQUIRIES

Any shareholder with enquiries should, in the first instance, contact our registrar, Neville Registrars, 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

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FINANCIAL CALENDAR

Financial year end	31 December 2017
Full year results announced	15 May 2018
Annual General Meeting	28 June 2018