OTTER CONTROLS LIMITED

Annual Report and Accounts

Year ended 31st December 2017

Registered in England and Wales No. 406954

OTTER CONTROLS LIMITED

CONTENTS

OTTER CONTROLS LIMITED
STRATEGIC REPORT

BUSINESS MODEL

Otter Group is a global manufacturer of bimetal controls, mouldings, enamelled products and thick film heating elements. The Group mainly operates in Europe and Asia, with the majority of its sales in those two regions.

STRATEGY AND OBJECTIVES

The long term vision of the management team is of building a £70 million turnover business by the year 2020. This will be achieved by both sustainable organic growth in existing markets and via expansion into new markets through the introduction of new product ranges and by the acquisition of existing businesses in those new markets.

PRINCIPAL RISKS AND FINANCIAL RISK MANAGEMENT

The Group is exposed to a variety of financial risks: market, price, foreign exchange, credit, liquidity and capital risks. Risk management for the Group is carried out by the Group Finance department in Buxton under the control of the Group Finance Director, acting within policies set by the Board of Directors.

There are a number of companies that provide products similar to those of the Group and compete in the Group's chosen markets, resulting in the risk of loss of revenue and downward pressure on selling prices. In order to assess this risk a regular review of the Group's markets is undertaken and the activities of competitors are monitored. The development of innovative products and services and maintaining close relationships with major customers are seen as key to maintaining the Group's position in those competitive markets.

The Group is exposed to commodity price risk principally in metals and oil, which have seen large fluctuations over the last few years. Management have tried to mitigate any increases by giving indicative orders for up to the next 6 months usage at the then price and calling them off as and when the goods are required.

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the US dollar, Euro, Chinese renminbi and Hong Kong dollar. Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities and net investments in foreign operations. Group management have reduced foreign exchange risk by invoicing intergroup trading in the same currency to self cover a large portion of the transactions and reduce currency exchange costs to a minimum. The Group has selected the US dollar for these intra-group transactions in Asia, as this is the normal trading currency in Asia and it is also pegged against the Chinese renminbi and Hong Kong dollar. In Europe the Group have selected the Euro.

Credit risk management for Otter Controls Limited, Otter Controls (Huizhou) Limited and Otter Controls (Asia) Limited is carried out by the local finance teams using trade credit insurance to cover 90% of the outstanding trade debtors.

Liquidity risk management includes maintaining sufficient cash and having available funding from an adequate number of committed credit facilities, to meet the day to day requirements of the Group.
The Group's forecasts and projections show that taking into account reasonably possible changes in the trading performance of the Group, it will be able to operate within the current facilities available.

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders or sell assets or shares.

KEY PERFORMANCE INDICATORS

The Board of Directors use the following key performance indicators to measure Group performance:

	2017	2016
Group sales increase compared to previous year	8.8%	3.5%
Sales per employee (£000)	57	62
Group shareholders' funds (£ millions)	28.6	23.9

As the Group operates internationally the majority of the Group's sales are in US dollars and Euros and following the devaluation of the GB pound against those currencies following the Brexit vote this has led to an increase in sales values when converted into GB pounds for consolidation purposes compared to last year.

FUTURE DEVELOPMENTS

Although the Directors have budgeted for the total group sales to increase in 2018, this is primarily due to large increases in orders seen by L.C.Switchgear Limited.
In order to combat increasing Chinese labour rates we commenced a project to automate most production lines in China in 2017 and we anticipate that these will be fully operational in late 2018.
The Buxton automotive site has experienced many changes this year as we strive to significantly increase production volumes and we have seen improvements in the weekly production volumes for our PK switch from mid 2018.
There remains uncertainty about how the UK will exit the European Union, which may result in more complicated or longer product approvals and longer lead times for customers. To mitigate this, management are monitoring the ongoing Brexit discussions and will agree on a course of action shortly.

The audited financial statements of the Company and the Group for the year ended 31st December 2017 are set out on pages 6 to 27.

The strategic report of Otter Controls Limited was approved by the Board of Directors and signed on its behalf on the 28 September 2018 by:

M.L.Colling
Director

OTTER CONTROLS LIMITED

DIRECTORS' REPORT

The Directors have pleasure in presenting their Report and the audited financial statements for the year ended 31st December 2017.

DIRECTORS

The Directors who served during the year and thereafter, were:

D.A.Smith
B.Smith
W.R.Jolliffe
M.L.Colling
P.Boundy
S.M.Whiteley
J.J.B.M.Derksen

D.A.Smith, B.Smith, W.R.Jolliffe, M.L.Colling, P.Boundy, S.M.Whiteley and J.J.B.M.Derksen retire from the Board by rotation and being eligible offer themselves for re-election.

DIVIDENDS	31.12.17	31.12.16
Details of dividends paid are as follows:	£	£
Prior year final of 14p per share (2016: nil)	57,935	-
Interim of nil p per share (2016: 14.0p)	-	57,935
	57,935	57,935

The Directors recommend a final dividend of 10p per share (2016: 14p).

GOING CONCERN

After making enquiries and based on the assumptions outlined in note 1 to the financial statements, the Directors have concluded that the Company has adequate resources to continue in operational existence for the foreseeable future. For this reason they have adopted the going concern basis in preparing the financial statements.

EMPLOYEES

The average monthly number of staff employed during the year was 1,181 (2016: 994) and details of the split and related costs can be found in note 3 to the financial statements.

Applications for employment by disabled persons are always fully considered, bearing in mind the aptitude of the applicant concerned. In the event of members of staff becoming disabled every effort is made to ensure that their employment with the Company continues and that appropriate training is arranged. It is the policy of the Group that the training, career development and promotion of disabled persons should, as far as possible, be identical with that of other employees.

BUSINESS REVIEW

After the end of the pause in government investment in the railways in 2017, our railway business has experienced a large upswing in sales and orders in the first half of 2018 and we expect sales for 2018 to be considerably up from 2017's level.

The demand for automotive switches from the Buxton site remains high and we are investing further in new automated machinery and people in order that we can achieve the required switch volumes needed to create enough spare capacity so that we can take on new high volume customers.
In order to control costs whilst we increase production volumes, we are reducing non direct production costs and have reorganised staffing and roles which led to a small number of redundancies and non replacement of retirees.

Labour rates in China have increased significantly over the past 5 years and following the consolidation of kettle switch production into one Chinese factory, we are in the process of automating the kettle switch production lines in order that we can reduce future labour costs and remain competitive.

We have seen a significant increase in the market value of the defined benefit scheme plan assets over the last two years which has helped the scheme to a small surplus as at 31 December 2017. We have continued to pay the recommended employer contributions into the scheme.

Turnover for the year increased to £67,190,531 (2016: £61,756,759) and the Group produced a profit before taxation of £2,507,176 (2016: £2,976,111).

DIRECTORS' REPORT (CONTINUED)

RESEARCH AND DEVELOPMENT

The Group's main research and development centre is at the Group's headquarters in Buxton, where considerable work is undertaken by experienced staff on the development of new products for the Group.
The expenditure for the year ended 31 December 2017 was £1,518,521 (2016: £1,481,528).

DIRECTORS' RESPONSIBILITIES STATEMENT

The Directors are responsible for preparing the Annual Report and the Financial Statements, in accordance with applicable law and regulations.
Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), including FRS 102 "The Financial Reporting Standard applicable in the United Kingdom and Republic of Ireland."

Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Company and of the profit or loss of the Group for that year. In preparing those financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

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

DISCLOSURE OF INFORMATION TO AUDITOR

Each of the persons who is a Director at the date of approval of this report confirms that:

- so far as the Director is aware there is no relevant audit information of which the company's auditor is unaware; and
- the Director has taken all steps that he ought to have taken as a Director to make himself aware of any relevant audit information and to establish that the company's auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

A resolution to re-appoint Deloitte LLP as the company's auditor will be proposed at the next Directors' meeting.

DIRECTORS AND OFFICERS LIABILITY INSURANCE

During the year liability insurance for its Directors and Officers as permitted by Section 232(2) of the Companies Act 2006 was maintained.

FINANCIAL RISK MANAGEMENT

As permitted by Section 414c of the Companies Act 2006, details of future outlook, financial risk management objectives and policies are presented in the Strategic Report.

Approved by the Board of Directors and signed on its behalf by:

Secretary
Otter Controls Limited
Tongue Lane Industrial Estate
Buxton
Derbyshire
SK17 7LF

28 September 2018

OTTER CONTROLS LIMITED
INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF OTTER CONTROLS LIMITED
REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinion

In our opinion the financial statements of Otter Controls Limited (the 'parent company') and its subsidiaries (the 'group'):

- give a true and fair view of the state of the group's and of the parent company's affairs as at 31st December 2017 and of the group's profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland"; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the group profit and loss account;
- the consolidated statement of comprehensive income;
- the group and parent company statement of financial position;
- the group and parent company statement of changes in equity;
- the group cash flow statement; and
- the related notes 1 to 26.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (United Kingdom Generally Accepted Accounting Practice).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs(UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the group and the parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We are required by ISAs (UK) to report in respect of the following matters where:

- the directors' use of the going concern basis of accounting in preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the group's or the parent company's company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

We have nothing to report in respect of these matters.

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in respect of these matters.

Responsibilities of directors

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

Report on other legal and regulatory requirements

Opinions on other matters prescribed by the Companies Act 2006

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

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

In the light of the knowledge and understanding of the group and of the parent company and their environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report or the directors' report.

Matters on which we are required to report by exception

Under the Companies Act 2006 we are required to report in respect of the following matters if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in respect of these matters.

Use of our report

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

E.Bm

Elizabeth Benson A.C.A.
Senior Statutory Auditor
For and on behalf of Deloitte LLP
Manchester
28 September 2018

OTTER CONTROLS LIMITED
CONSOLIDATED PROFIT AND LOSS ACCOUNT
Year ended 31st December 2017

	Notes	Year ended 31.12.17 £	Year ended 31.12.16 £
TURNOVER	2	67,190,531	61,756,759
Less: Cost of sales		(48,818,506)	(44,539,166)
GROSS PROFIT		18,372,025	17,217,593
Less: Distribution costs		(2,028,825)	(1,949,101)
Administrative expenses		(13,600,660)	(12,131,519)
Amortisation of goodwill	10	(542,235)	(570,360)
Amortisation of negative goodwill	10	10,666	36,035
Amortisation of patents	10	(17,122)	(35,799)
Other operating income		408,213	219,740
OPERATING PROFIT		2,602,062	2,786,589
Finance (costs)/income (net)	6	(94,886)	189,522
PROFIT BEFORE TAXATION	3	2,507,176	2,976,111
Tax on profit	8	(575,639)	(1,175,011)
PROFIT FOR THE FINANCIAL YEAR		1,931,537	1,801,100

Profit for the financial year attributable to:			
Non controlling interests	18	519,617	573,518
Equity shareholders of the Company		1,411,920	1,227,582
		1,931,537	1,801,100

All amounts relate to continuing operations in both the current and prior year.

OTTER CONTROLS LIMITED
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
Year ended 31st December 2017

	Notes	Year ended 31.12.17 £	Year ended 31.12.16 £
PROFIT FOR THE FINANCIAL YEAR		1,931,537	1,801,100
Currency translation difference on foreign currency net investments		(261,882)	1,533,500
Earnout shortfall		663	4,433
Share of reserves on conversion of fully convertible debentures		-	6,268
Remeasurement of net defined benefit asset/(liability)	23	4,491,000	(7,058,000)
		6,161,318	(3,712,699)
Tax relating to components of other comprehensive (income)/expense		(853,290)	1,341,020
TOTAL COMPREHENSIVE INCOME/(EXPENSE)		5,308,028	(2,371,679)

Total comprehensive income/(expense) for the year attributable to:

Non controlling interests	513,651	584,219
Equity shareholders of the Company	4,794,377	(2,955,898)
	5,308,028	(2,371,679)

OTTER CONTROLS LIMITED
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 31st December 2017

	Notes	31.12.17		31.12.16	
		£	£	£	£
FIXED ASSETS					
Goodwill	10		3,162,129		3,707,404
Negative goodwill	10		(33,908)		(44,574)
Goodwill - net balance			3,128,221		3,662,830
Intellectual property	10		34,303		37,325
Intangible assets			3,162,524		3,700,155
Tangible assets	9		11,501,548		10,916,536
			14,664,072		14,616,691
CURRENT ASSETS					
Stocks	12	7,840,814		7,547,219	
Debtors	13	8,980,713		8,025,398	
Cash at bank and in hand	20	10,737,617		10,876,033	
		27,559,144		26,448,650	
CREDITORS: amounts falling due within one year	14	(9,379,657)		(9,485,231)	
NET CURRENT ASSETS			18,179,487		16,963,419
DEBTORS: amounts falling due after more than one year					
Deferred tax asset	15		-		724,660
TOTAL ASSETS LESS CURRENT LIABILITIES			32,843,559		32,304,770
CREDITORS: amounts falling due after more than one year	14		(78,486)		(361,120)
PROVISION FOR LIABILITIES	15		(393,951)		(148,702)
NET ASSETS EXCLUDING PENSION ASSET/(LIABILITY)			32,371,122		31,794,948
Pension asset/(liability)	23		792,000		(3,814,000)
NET ASSETS INCLUDING PENSION ASSET/(LIABILITY)			33,163,122		27,980,948
CAPITAL AND RESERVES					
Called up share capital	16		413,822		413,822
Other reserves	17		468,767		468,767
Profit and loss account	17		27,730,804		22,990,361
TOTAL SHAREHOLDERS' FUNDS			28,613,393		23,872,950
MINORITY INTERESTS	18		4,549,729		4,107,998
CAPITAL EMPLOYED			33,163,122		27,980,948

These financial statements of Otter Controls Limited (Company registration number 406954) were approved by the Board of Directors and authorised for issue on 28 September 2018 and were signed on its behalf by:

Michael Colling

M.L.COLLING
Director

D.A.SMITH
Director

OTTER CONTROLS LIMITED
COMPANY STATEMENT OF FINANCIAL POSITION
As at 31st December 2017

	Notes	31.12.17		31.12.16	
		£	£	£	£
FIXED ASSETS					
Tangible assets	9		4,236,875		4,576,030
Intangible assets	10		20,203		37,325
Investments	11		7,347,725		7,347,725
			11,604,803		11,961,080
CURRENT ASSETS					
Stocks	12	2,374,333		1,602,099	
Debtors	13	3,189,462		4,324,802	
Cash at bank and in hand		880,367		1,210,773	
		6,444,162		7,137,674	
CREDITORS: amounts falling due within one year	14	(9,344,487)		(9,529,894)	
NET CURRENT LIABILITIES			(2,900,325)		(2,392,220)
DEBTORS: amounts falling due after more than one year					
Deferred tax asset	15		-		633,650
TOTAL ASSETS LESS CURRENT LIABILITIES			8,704,478		10,202,510
PROVISIONS	15		(129,960)		-
NET ASSETS EXCLUDING (LIABILITY)/PENSION ASSET			8,574,518		10,202,510
Pension (liability)/asset	23		684,000		(3,335,000)
NET ASSETS INCLUDING PENSION (LIABILITY)/ASSET			9,258,518		6,867,510
CAPITAL AND RESERVES					
Called up share capital	16		413,822		413,822
Capital redemption reserve	17		2		2
Profit and loss account	17		8,844,694		6,453,686
TOTAL SHAREHOLDERS' FUNDS			9,258,518		6,867,510

Shareholder' funds

The loss for the financial year dealt with in the financial statements of the parent Company was £685,757 (2016: loss £1,270,244).

These financial statements of Otter Controls Limited (Company registration number 406954) were approved by the Board of Directors and authorised for issue on 28 September 2018 and were signed on its behalf by:

M.L.COLLING
Director

D.A.SMITH
Director

OTTER CONTROLS LIMITED
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
Year ended 31st December 2017

Consolidated Statement of Changes in Equity	Called up share capital £	Other Reserves £	Profit and loss account £	Total £	Non controlling interest £	Total £
At 1st January 2016	413,822	468,767	26,000,193	26,882,782	3,595,699	30,478,481
Profit for financial year	-	-	1,227,582	1,227,582	573,518	1,801,100
Remeasurement of net defined benefit liability	-	-	(7,058,000)	(7,058,000)	-	(7,058,000)
Tax on items of other comprehensive income	-	-	1,341,020	1,341,020	-	1,341,020
Currency translation differences on foreign net investments	-	-	1,533,500	1,533,500	-	1,533,500
Earnout shortfall	-	-	-	-	4,433	4,433
Share of reserves on conversion of fully convertible debentures	-	-	-	-	6,268	6,268
Total comprehensive (expense)/income in year	-	-	(2,955,898)	(2,955,898)	584,219	(2,371,679)
Dividends paid on equity shares	-	-	(53,934)	(53,934)	(71,920)	(125,854)
At 31st December 2016	413,822	468,767	22,990,361	23,872,950	4,107,998	27,980,948
Profit for financial year	-	-	1,411,920	1,411,920	519,617	1,931,537
Remeasurement of net defined benefit liability	-	-	4,491,000	4,491,000	-	4,491,000
Tax on items of other comprehensive income	-	-	(853,290)	(853,290)	-	(853,290)
Currency translation differences on foreign net investments	-	-	(255,253)	(255,253)	(6,629)	(261,882)
Earnout shortfall	-	-	-	-	663	663
Total comprehensive income in year	-	-	4,794,377	4,794,377	513,651	5,308,028
Dividends paid on equity shares	-	-	(53,934)	(53,934)	(71,920)	(125,854)
At 31st December 2017	413,822	468,767	27,730,804	28,613,393	4,549,729	33,163,122

Company Statement of Changes in Equity	Called up share capital £	Other Reserves £	Profit and loss account £	Total £
At 1st January 2016	413,822	2	12,801,435	13,215,259
Loss for financial year	-	-	(1,270,244)	(1,270,244)
Remeasurement of net defined benefit asset	-	-	(6,197,000)	(6,197,000)
Tax on items of other comprehensive income	-	-	1,177,430	1,177,430
Total comprehensive expense in year	-	-	(6,289,814)	(6,289,814)
Dividends paid on equity shares	-	-	(57,935)	(57,935)
At 31st December 2016	413,822	2	6,453,686	6,867,510
Loss for financial year	-	-	(685,757)	(685,757)
Remeasurement of net defined benefit liability	-	-	3,870,000	3,870,000
Tax on items of other comprehensive income	-	-	(735,300)	(735,300)
Total comprehensive income in year	-	-	2,448,943	2,448,943
Dividends paid on equity shares	-	-	(57,935)	(57,935)
At 31st December 2017	413,822	2	8,844,694	9,258,518

The accompanying notes form part of these financial statements.

OTTER CONTROLS LIMITED
GROUP CASH FLOW STATEMENT
Year ended 31st December 2017

	Notes	Year ended 31.12.17		Year ended 31.12.16	
		£	£	£	£
NET CASH INFLOW FROM OPERATING ACTIVITIES	19		3,059,036		3,392,173
Cash flows from investing activities					
Purchase of tangible fixed assets		(2,851,496)		(3,928,137)	
Purchase of intangible fixed assets		(14,100)		(9,970)	
Proceeds on sale of tangible fixed assets		520,663		2,466,789	
Net cash flows from investing activities			(2,344,933)		(1,471,318)
Cash flows from financing activities					
Equity dividends paid		(53,934)		(53,934)	
Interest received		12,373		75,312	
Dividends paid to minority shareholders		(71,920)		(71,920)	
Interest paid		(10,259)		(10,790)	
Net cash flows from financing activities			(123,740)		(61,332)
INCREASE IN CASH			590,363		1,859,523

RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET FUNDS

	Notes	2017 £	2016 £
Increase in cash		590,363	1,859,523
Currency translation differences on net cash balances		(389,199)	906,889
Change in net funds resulting from cash flows		201,164	2,766,412
Net opening funds	20	10,478,889	7,712,477
Net closing funds	20	10,680,053	10,478,889

1 ACCOUNTING POLICIES

Otter Controls Limited is a private company limited by shares and is incorporated in England and Wales registration number 406954. The principal place of business and registered office is Unit 12, Tongue Lane Industrial Estate, Dew Pond Lane, Fairfield, Buxton, Derbyshire, SK17 7LF.
The nature of the group's operations and its principal activities are set out in the Strategic Report and note 11.
The financial statements have been prepared under the historical cost convention and in accordance with Financial Reporting Standard 102 (FRS 102) issued by the Financial Reporting Council.
The functional currency of the Company is considered to be pounds sterling because that is the currency of the primary economic environment in which the Company operates.
Otter Controls Limited meets the definition of a qualifying entity under FRS 102 and has therefore taken advantage of the disclosure exemptions available to it in respect of its separate financial statements. Exemptions have been taken in relation to remuneration of key management personnel and preparation of a company only cash flow statement.

Basis of consolidation

The consolidated accounts incorporate the financial statements of Otter Controls Limited and its subsidiary undertakings made up to 31st December each year. The results of subsidiaries acquired or sold are consolidated for the periods from or to the date on which control passed. Acquisitions are accounted for under the acquisition method.

Going concern

The directors acknowledge the latest guidance on going concern as issued by the Financial Reporting Council 'FRC'. Based on internal forecasts and projections that take into account reasonably possible changes in the Group's trading performance, the directors believe that the Group is well-placed to manage its business risks despite the ongoing uncertainty in the global economic environment.
As a result of the above, the directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

Critical accounting judgements and key sources of estimation uncertainty

In the application of the company's accounting policies, which are described below, the Directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods. The Directors have considered this and do not deem there are any key sources of estimation uncertainty applicable to the Company.

Critical judgements in applying the Company's accounting policies

The following are the critical judgements that the Directors have made in the process of applying the Company's accounting policies and that have the most significant effect on the amounts recognised in the financial statements:

Although railway sales orders are back to a more normal level, delays in the drawdown under those orders has meant that the Directors have maintained the impairment provision on the value of the investment in L.C.S Holdings Limited.

Assumptions have been made as at 31st December 2017 for the purpose of disclosures under FRS 102 for the Group and Company of the costs, assets and liabilities of the Group's various pension schemes (note 23).

Intangible assets - goodwill and intellectual property

Goodwill arising on the acquisition of subsidiary undertakings and businesses, representing any excess of the fair value of the consideration given over the fair value of the identifiable assets and liabilities acquired, is capitalised and written off over its useful economic life, which is 10 years. Provision is made for any impairment.
Negative goodwill is similarly included in the balance sheet and is credited to the profit and loss account in the periods in which the acquired non-monetary assets are recovered through depreciation or sale.
Negative goodwill in excess of the fair values of the non-monetary assets acquired is credited to the profit and loss account in the periods expected to benefit.
Intellectual property is included at cost and depreciated in equal monthly instalments over the life of the licence to use the patent. Provision is made for any impairment.

Tangible fixed assets

Tangible fixed assets are stated at cost, net of any depreciation and any provision for impairment.
Depreciation is provided on all assets at rates calculated to write off the cost, less estimated residual value, of each asset, on a reducing balance basis over its expected useful life as follows:

Freehold land and buildings - 0.5% per month
Leasehold improvements are depreciated over the life of the leases.
Plant and machinery, and motor vehicles - 1.5% and 2.5% per month

Residual value is calculated on prices prevailing at the date of acquisition.

Stocks

Stocks are stated at the lower of cost and net realisable value. Cost comprises the actual cost of raw materials and an appropriate proportion of labour and overheads in the case of work in progress and finished goods. Net realisable value is based on estimated selling price, less further costs expected to be incurred to completion and disposal. Provision is made for obsolete and slow moving items where appropriate.

1 ACCOUNTING POLICIES (CONTINUED)

Fixed asset investments

Fixed asset investments are shown at cost less provision for impairment. Current asset investments are stated at the lower of cost and net realisable value.

Interest income

Interest income is recognised when it is probable that the economic benefits will flow to the Group and the amount of revenue can be reliably measured. Interest income is accrued on a time basis, by reference to the principal outstanding and the effective interest rate applicable, which is the rate that exactly discounts future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Other operating income

Royalty income is based on sales and is recognised on an accrual basis in accordance with the substance of the relevant agreement (provided that it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably).

Research and development

Research and development expenditure is written off as incurred.

Taxation

Current taxation is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date.
Deferred taxation is recognised in respect of all timing differences where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. Timing differences are differences between the Group's taxable profits and its results as stated in the financial statements that arise from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in the financial statements.
Unrelieved losses and other deferred tax assets are recognised only to the extent that, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted. Deferred tax is measured using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Government grants

Government grants relating to tangible fixed assets are treated as deferred income and released to the profit and loss account over the expected useful lives of the assets concerned.

Hire purchase and operating leases

Assets obtained under hire purchase agreements are capitalised in the balance sheet and depreciated over their useful lives. The interest element of these obligations is charged to the profit and loss account over the relevant period. Rentals on operating leases are charged to the profit and loss account on a straight line basis over the lease term.

Foreign currencies

Transactions in foreign currencies are recorded at the rate of exchange at the date of the transaction.
Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are reported at the rates of exchange prevailing at that date.
The results of overseas operations are translated at the average rates of exchange during the period and their balance sheets at the rates ruling at the balance sheet date. Exchange differences arising on translation of the opening net assets and results of overseas operations and on foreign currency borrowings, to the extent that they hedge the Group's investment in such operations, are reported in the statement of total recognised gains and losses. All other exchange differences are included in the profit and loss account.

Pensions

For defined benefit schemes the amounts charged to operating profit are the current service costs and gains and losses on settlements and curtailments. They are included as part of staff costs. Past service costs are recognised immediately in the profit and account if the benefits have vested. If the benefits have not vested immediately, the costs are recognised over the period until vesting occurs. The interest cost and the expected return on assets are shown as a net amount of other finance costs or credits adjacent to interest. Actuarial gains and losses are recognised immediately in the statement of total recognised gains and losses.
Defined benefit schemes are funded, with the assets of the scheme held separately from those of the Group, in separate trustee administered funds. Pension scheme assets are measured at fair value and liabilities are measured on an actuarial basis using the projected unit method and discounted at a rate equivalent to the current rate of return on a high quality corporate bond of equivalent currency and term to the scheme liabilities. The actuarial valuations are obtained at least triennially and are updated at each balance sheet date. The resulting defined asset or liability, net of deferred tax, is presented separately after other net assets on the face of the balance sheet.
The Group recognises an asset in respect of any surplus, being the excess of the value of the assets in the schemes over the present value of the schemes' liabilities, only to the extent that it is able to recover the surplus either through reduced contributions in the future or from refunds from the schemes.
For defined contribution schemes the amount charged to the profit and loss account in respect of pension costs and other post-retirement benefits is the contributions payable in the year. Differences between contributions payable in the year and contributions actually paid are shown as either accruals or prepayments in the balance sheet.

1 ACCOUNTING POLICIES (CONTINUED)

Financial instruments

Financial assets and financial liabilities are recognised when the Group becomes a party to the contractual provisions of the instrument. Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities.

i). Financial assets and liabilities

All financial assets and liabilities are initially measured at transaction price (including transaction costs), except for those, financial assets classified as at fair value through profit or loss, which are initially measured at fair value (which is normally the transaction price excluding transaction costs), unless the arrangement constitutes a financing transaction. If an arrangement constitutes a financing transaction, the financial asset or liability is measured at the present value of the future payments discounted at a market rate of interest for a similar debt instrument.

Financial assets and liabilities are only offset in the statement of financial position when, and only when there exists a legally enforceable right to set off the recognised amounts and the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Debt instuments which meet the following conditions of being 'basic' financial instruments as defined in paragraph 11.9 of FRS 102 are subsequently measured at amortised cost using the effective interest method:

Debt instuments that have no stated interest rate (and do not constitute financing transactions) and are classified as payable or receivable within one year are initially measured at an undiscounted amount of the cash or other consideration expected to be paid or received, net of impairment.

With the exception of some hedging instruments, other debt instruments not meeting conditions of being 'basic' financial instruments are measured at fair value through profit or loss.

Commitments to make and receive loans which meet the conditions mentioned above are measured at cost (which may be nil) less impairment.

Financial assets are derecognised when and only when:
a.the contractual rights to the cash flows from the financial asset expire or are settled, or
b.the Group transfers to another party substantially all the risks and rewards of ownership of the financial asset, or
c.the Group, despite having retained some, but not all, significant risks and rewards of ownership, has transferred control of the asset to another party.

Financial liabilities are only derecognised only when the obligation specified in the contract is discharged, cancelled or expires.

ii). Investments

In the Company balance sheet, investments in subsidiaries are shown at cost less impairment. For investments in subsidiaries acquired for consideration including the issue of shares qualifying for merger relief, cost is measured by reference to the nominal value of the shares issued plus fair value of any other consideration. Any premium is ignored.

iii). Equity instuments

Equity instruments issued by the Company are recorded at the fair value of cash or other resources received or receivable, net of direct issue costs.

iv). Convertible loan notes

The component parts of compound instruments issued by the Group are classified separately as financial liabilities and equity in accordance with the substance of the contractual arrangement. On initial recognition the financial liability component is recorded at its fair value. At the date of issue,in the case of a convertible bond denominated in the functional currency of the issuer that may be converted into a fixed number of equity shares, the fair value of the liability component is estimated using the prevailing market interest rate for a similar non-convertible instrument. The equity component is determined by deducting the amount of the liability component from the fair value of the compound instrument as a whole. This is recognised and included in equity and is not subsequently remeasured.

Transaction costs are apportioned between the liability and equity components of the convertible instrument based on their relative fair values at the date of issue. The portion relating to the equity component is charged directly against equity. Where the financial liability component meets the criteria in i). Above, the finance costs of the financial liability are recognised over the term of the debt using the effective interest method. If those criteria are not met, the financial liability component is measured at fair value through profit and loss.

v). Derivative financial instruments

The Group uses derivative financial instruments to reduce exposure to forign exchange risk and interest rate movements. The Group does not hold or issue derivative financial instruments for speculative purposes.

Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at each reporting date. The resulting gain or loss is recognised in profit or loss immediately, unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit and loss depends on the nature of the hedge relationship.

1 ACCOUNTING POLICIES (CONTINUED)

Financial instruments (continued)

vi). Fair value measurement

The best evidence of fair value is a quoted price for an identical transaction in an active market. When quoted prices are unavailable, the price of a recent transaction for an identical asset provides evidence of fair value as long as there has not been a significant change in the economic circumstances or a significant lapse of time since the transaction took place. If the market is not active and recent transactions of an identical asset on their own are not a good estimate of fair value, the fair value is estimated by using a valuation technique.

vii). Hedge accounting

The Group designates certain derivatives as hedging instruments in cash flow hedges and fair value hedges.

At the inception of the hedge relationship, the entity documents the economic relationship between the hedging instrument and the hedged item, along with its risk management objectives and clear identification of the risk in the hedged item that is being hedged by the hedging instrument. Furthermore, at the inception of the hedge the Group determines and documents causes for hedge ineffectiveness.

Cash flow hedges

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income. The gain or loss relating to the ineffective portion is recognised immediately in profit and loss. Amounts previously recognised in other comprehensive income and accumulated in equity are reclassified to profit and loss in the periods in which the hedged item affects profit or loss or when the hedging relationship ends, except for the hedging of inventory purchases when the amount is reclassified from the hedging reserve and included in the cost of inventory at initial recognition.

Hedge accounting is discontinued when the Group revokes the hedging relationship, the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. Any gain or loss accumulated in equity at that time is reclassified to profit or loss when the hedged item is recognised in profit or loss. When a forecast transaction is no longer expected to occur, any gain or loss that was recognised in other comprehensive income is reclassified immediately to profit or loss.

Fair value hedges

Changes to the fair value of derivatives that are designated and qualify as fair value hedges are recognised in profit or loss immediately, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. The change in the fair value of the hedging instrument and the change in the hdged item attributable to the hedged risk are recognised in the line related to the hedged item in profit or loss.

2 TURNOVER

Turnover comprises the sale of goods and services from continuing operations excluding sales related taxes and after deducting discounts taken and rebates due. Sales are recognised after despatch of the goods and completion of the services. Geographical analysis is as follows:

	United Kingdom		Rest of Europe		Rest of World		Total for Group	
	2017	2016	2017	2016	2017	2016	2017	2016
	£	£	£	£	£	£	£	£
Turnover by destination:								
Sales to third parties	10,547,525	8,425,859	21,926,244	20,369,067	34,716,762	32,961,833	67,190,531	61,756,759
Turnover by origin:								
Sales to third parties	23,769,706	20,302,197	16,200,261	13,583,564	27,220,564	27,870,998	67,190,531	61,756,759

3 PROFIT BEFORE TAXATION

Profit before taxation from continuing operations is stated after charging/(crediting):	Year ended 31.12.17 £	Year ended 31.12.16 £
Income from rent of land & buildings and plant	(41,006)	(40,053)
Cost of stock sold	32,120,894	27,277,419
Depreciation	2,151,660	2,300,140
Amortisation of patents	17,122	35,799
Amortisation of negative goodwill	(10,666)	(36,035)
Amortisation of goodwill	542,235	570,360
Amortisation of grant income	(7,366)	(8,906)
Profit on disposal of tangible fixed assets	(472,632)	(289,784)
Plant and machinery hire	24,655	20,710
Vehicle hire	65,761	65,001
Rent on leasehold land and buildings	570,999	573,198
Research and development costs	1,518,521	1,481,528
Foreign exchange loss/(gain) through profit & loss	535,135	(543,756)

3 PROFIT BEFORE TAXATION (CONTINUED)

The analysis of auditor's remuneration is as follows:	Year ended 31.12.17	Year ended 31.12.16
Fees payable to the Company's auditor for the audit of the Company's annual accounts	35,000	30,000
Fees payable to the Company's auditor and their associates for the audit of the Company's subsidiaries	93,079	72,152
	128,079	102,152
Fees payable to third party auditors for subsidiary audits	35,556	40,956
	163,635	143,108

There were no non-audit fees payable to the Group's auditor in the year (2016: nil).

Staff costs (including Directors)	£	£
Wages and salaries	17,430,143	15,233,175
Social security costs	1,772,408	1,536,933
Pension costs	1,741,053	1,510,065
Severance payments	-	661,893
	20,943,604	18,942,066

The average monthly number of persons (including Directors) employed by the Group during the year was:	Year ended 31.12.17 Number	Year ended 31.12.16 Number
Administrative staff	193	198
Direct production staff	834	638
Indirect production staff	154	158
	1,181	994

4 LOSS ATTRIBUTABLE TO THE COMPANY

As permitted by section 408 of the Companies Act 2006, a separate Profit and Loss Account dealing with the results of the Parent Company has not been presented.
A loss of £685,757 (2016: loss £1,270,244) has been reported in the accounts of the Company.

5 DIRECTORS' REMUNERATION

	Year ended 31.12.17 £	Year ended 31.12.16 £
Emoluments	819,199	823,005
Contribution to money purchase pension schemes	163,925	58,005
	983,124	881,010
The number of Directors who:	Number	Number
Are members of a money purchase scheme	6	6
Remuneration of highest paid Director:	£	£
Emoluments	188,961	192,209
Contribution to money purchase pension schemes	34,338	5,704
	223,299	197,913

6 FINANCE (COSTS)/INCOME (NET)

	Year ended 31.12.17 £	Year ended 31.12.16 £
a. Investment income		
Bank interest receivable	12,373	75,312
Other finance (charge)/income (note 23)	(97,000)	125,000
	(84,627)	200,312
b. Interest payable on bank loans and overdrafts	-	9,310
Interest payable on hire purchase agreements	10,259	1,480
	10,259	10,790
Finance (costs)/income (net)	(94,886)	189,522

7 DIVIDENDS

Details of dividends paid are as follows:	Year ended 31.12.17 £	Year ended 31.12.16 £
Prior year final of 14p per share (2016: nil)	57,935	-
Interim of nil p per share (2016: 14.0p)	-	57,935
	57,935	57,935

The Directors recommend a final dividend of 10p per share (2016: 14.0p).

8 TAXATION

The tax charge comprises:	Year ended 31.12.17 £	Year ended 31.12.16 £
Current tax		
UK corporation tax	126,687	70,579
UK Research & Development credit	(119,910)	-
Foreign taxation	605,778	1,275,840
Adjustments in respect of prior years	350	(95,647)
Total current tax	612,905	1,250,772
Deferred tax		
Deferred tax on pension scheme asset/(deficit)	21,850	(57,240)
Origination and reversal of timing differences	(59,116)	(18,521)
Total deferred tax	(37,266)	(75,761)
Total tax on profit	575,639	1,175,011

The Finance Act No.2 2015 included provisions to reduce the UK corporation tax rate to 19% with effect from the 1 April 2017. The Finance Act 2016 introduced further legislation to reduce the main rate of corporation tax to 17% from 1 April 2020 and these rates have therefore been used to measure deferred tax assets and liabilities where applicable.

Reconciliation of current tax charge:
The current tax charge is higher than that arising from applying the standard rate of UK corporation tax of 19.25% (2016: 20%), the differences are explained below:

Factors affecting the corporation tax charge for the year: The year's assessed tax differs from the UK standard rate of 20% and the differences are explained below:	Year ended 31.12.17 £	Year ended 31.12.16 £
Profit before taxation	2,507,176	2,976,111
Tax on Group profit at standard rate of 19.25% (2016: 20%)	482,632	595,222
Effect of:		
Overseas profits rate and provisional tax adjustments	5,523	(59,996)
Exchange and other adjustments	-	32,789
Expenses not deductible for tax purposes	185,755	178,249
Income deductible for tax purposes	(125,737)	(130,811)
Short term timing differences	12,408	(24,065)
Withholding tax	46,964	33,485
UK Research & Development credit	(119,910)	-
Adjustments to prior years	350	(95,647)
Tax losses adjustments	87,654	645,785
Total tax charge	575,639	1,175,011

A deferred tax asset of £1,654,000 (2016: £1,317,000) in respect of tax losses and capital allowances has not been recognised on the basis of uncertainty that the balance will be recovered by future profits.

9 TANGIBLE FIXED ASSETS

Group	Freehold Land and Buildings	Leasehold Improvements	Plant, Machinery and Motor Vehicles	Total
Cost	£	£	£	£
At 1st January 2017	6,877,603	148,491	45,439,156	52,465,250
Exchange adjustments	66,362	9,306	109,535	185,203
Additions	2,612	16,463	2,832,421	2,851,496
Disposals	(104,153)	-	(1,082,981)	(1,187,134)
At 31st December 2017	6,842,424	174,260	47,298,131	54,314,815
Depreciation				
At 1st January 2017	3,946,806	100,474	37,501,434	41,548,714
Exchange adjustments	31,196	(4,799)	225,599	251,996
Charge for year	230,777	27,497	1,893,386	2,151,660
Disposals	(88,079)	-	(1,051,024)	(1,139,103)
At 31st December 2017	4,120,700	123,172	38,569,395	42,813,267
NET BOOK VALUES				
At 31st December 2017	2,721,724	51,088	8,728,736	11,501,548
At 31st December 2016	2,930,797	48,017	7,937,722	10,916,536

Plant and machinery includes capital under construction of £212,848 (2016: £828,043) which is not depreciated.

9 TANGIBLE FIXED ASSETS (CONTINUED)

Company	Freehold Land and Buildings	Plant, Machinery & Vehicles	Total
Cost	£	£	£
At 1st January 2017	4,029,501	29,629,837	33,659,338
Additions	-	411,350	411,350
Disposals	(104,153)	(924,040)	(1,028,193)
At 31st December 2017	3,925,348	29,117,147	33,042,495
Depreciation			
At 1st January 2017	2,338,673	26,744,635	29,083,308
Charge for year	98,316	625,653	723,969
Disposals	(88,079)	(913,578)	(1,001,657)
At 31st December 2017	2,348,910	26,456,710	28,805,620
NET BOOK VALUES			
At 31st December 2017	1,576,438	2,660,437	4,236,875
At 31st December 2016	1,690,828	2,885,202	4,576,030

10 INTANGIBLE FIXED ASSETS

Group	Negative Goodwill	Goodwill	Intellectual Property	Total
Cost	£	£	£	£
At 1st January 2017	(563,191)	7,406,041	362,452	7,205,302
Additions	-	-	14,100	14,100
Exchange differences	-	-	(1,770)	(1,770)
Earnout shortfall	-	(3,040)	-	(3,040)
At 31st December 2017	(563,191)	7,403,001	374,782	7,214,592
Amortisation				
At 1st January 2017	(518,617)	3,698,637	325,127	3,505,147
Exchange differences	-	-	(1,770)	(1,770)
Charge for year	(10,666)	542,235	17,122	548,691
At 31st December 2017	(529,283)	4,240,872	340,479	4,052,068
NET BOOK VALUE				
At 31st December 2017	(33,908)	3,162,129	34,303	3,162,524
At 31st December 2016	(44,574)	3,707,404	37,325	3,700,155

Negative goodwill is released on a straight line basis over 10 years, which is the expected remaining useful economic life of the non-monetary assets to which it relates.

Company	Patents
Cost	£
At 1st January 2017 and 31st December 2017	480,119
Amortisation	
At 1st January 2017	442,794
Charge for year	17,122
At 31st December 2017	459,916
NET BOOK VALUE	
At 31st December 2017	20,203
At 31st December 2016	37,325

11 FIXED ASSET INVESTMENTS

The subsidiaries of the group and the percentage of holdings of ordinary share capital are set out below:

Subsidiary	Type of share	Group %	Company %	Country of incorporation	Principal Activities
Tarka Controls Limited	A Ordinary	51	51	England	Holding company
	B Ordinary	79	79		
Montgomery Thermostats Limited	A Ordinary	78	nil	England	Dormant
	B Ordinary	78	nil		
Otter Controls (Asia) Limited	Ordinary	84	25	Hong Kong	Sale of thermostats
	Preference	84	25		
Otter Controls (Shenzhen) Limited	Ordinary	84	nil	China	Manufacture of thermostats
Otter Controls (Huizhou) Limited	Ordinary	84	nil	China	Manufacture of thermostats
Ferro Techniek (Holding) B.V.	A Ordinary	89	49	Netherlands	Holding company
	B Ordinary	89	49		
Ferro Techniek B.V.	Ordinary	89	0	Netherlands	Manufacture of enamelled products
Ferro Electronics Kft	Ordinary	89	0	Hungary	Manufacture of enamelled products
Ferro Techniek Colombia SAS	Ordinary	89	0	Colombia	Manufacture of enamelled products
St. Davids Assemblies Limited	Ordinary	60	60	England	Manufacture of components
Otter Controls India Private Limited	Ordinary	82	nil	India	Manufacture of brushcards
L.C.S. Holdings Limited	Ordinary	100	100	England	Holding company
L.C. Switchgear Limited	Ordinary	100	nil	England	Manufacture of switchgear
Dunford & Pearson Limited	Ordinary	100	nil	England	Manufacture of wiring harnesses

Subsidiary	Registered office:
Tarka Controls Limited	Unit 12, Tongue Lane Industrial Estate, Dew Pond Lane, Buxton, Derbyshire, United Kingdom.
Montgomery Thermostats Limited	Unit 12, Tongue Lane Industrial Estate, Dew Pond Lane, Buxton, Derbyshire, United Kingdom.
St. Davids Assemblies Limited	Unit 12, Tongue Lane Industrial Estate, Dew Pond Lane, Buxton, Derbyshire, United Kingdom.
L.C.S. Holdings Limited	Unit 16, St. Josephs Close, Hove, East Sussex, United Kingdom.
L.C. Switchgear Limited	Unit 16, St. Josephs Close, Hove, East Sussex, United Kingdom.
Dunford & Pearson Limited	Unit 7, Palmbourne Business Park, Castle Street, Stafford, Staffordshire, United Kingdom.
Ferro Techniek (Holding) B.V.	Bremstraat 1, NL 7011, AT Gaandaren, The Netherlands.
Ferro Techniek B.V.	Bremstraat 1, NL 7011, AT Gaandaren, The Netherlands.
Ferro Electronics Kft	Levelezesi cim 1047, Budapest, Foti ut 56, Hungary.
Ferro Techniek Colombia SAS	Cra 42, 35-95 Autopista sur Itagul, Medellin, Colombia.
Otter Controls India Private Limited	Shed 6, U Turn Industrial Estate, Kharabwadi, Chakan, India.
Otter Controls (Asia) Limited	10F Capella HTR, 47 Hung To Road, Kwun Tong, Hong Kong.
Otter Controls (Shenzhen) Limited	Block 3, Hun Hong Xin Tong Industrial Park, Guang Ming, Shenzhen, China.
Otter Controls (Huizhou) Limited	Building F, Spread Profit Industrial Park, Lilin Town, Huizhou City, Guangdong, China.

Subsidiary undertakings
Company

Cost	£
At 1st January 2017 & 31st December 2017	9,945,738
Provisions for impairment	
At 1st January 2017 & 31st December 2017	2,598,013
Net book value at 31st December 2017	7,347,725
Net book value at 31st December 2016	7,347,725

All subsidiaries are consolidated in the Group consolidated financial statements.

12 STOCKS

Group	31.12.17	31.12.16
	£	£
Raw materials and consumables	4,918,025	4,798,489
Work in progress	1,570,517	1,552,702
Finished goods	1,352,272	1,196,028
	7,840,814	7,547,219

Company		
Raw materials and consumables	1,087,662	893,384
Work in progress	678,316	441,418
Finished goods	608,355	267,297
	2,374,333	1,602,099

There is no material difference between the balance sheet value of stocks and their replacement cost.

13 DEBTORS

Group	31.12.17	31.12.16
	£	£
Trade debtors	6,539,881	5,768,815
Corporation tax recoverable	717,111	122,266
Other debtors	1,035,489	1,662,753
Prepayments	688,232	471,564
	8,980,713	8,025,398

Company		
Trade debtors	949,022	1,544,234
Due from subsidiary undertakings	1,836,426	2,494,822
Other debtors	64,699	76,990
Prepayments	339,315	208,756
	3,189,462	4,324,802

All debtors are due within one year.

14 CREDITORS

Group	31.12.17	31.12.16
	£	£
Amounts falling due within one year:		
Bank loans and overdrafts	57,564	397,144
Obligations under hire purchase agreements	10,268	11,111
Trade creditors	4,672,844	4,273,375
Corporation tax	342,517	542,037
Other taxation and social security	1,091,684	1,075,188
Accruals	2,880,029	2,827,281
Other creditors	324,751	359,095
	9,379,657	9,485,231

Company		
Amounts falling due within one year:		
Trade creditors	1,110,762	895,844
Due to subsidiary undertakings	7,511,693	8,054,616
Other taxation and social security	151,490	149,311
Accruals	507,751	315,717
Other creditors	62,791	114,406
	9,344,487	9,529,894

14 CREDITORS

Group	31.12.17 £	31.12.16 £
Amounts falling due after more than one year:		
Obligations under hire purchase agreements	8,891	19,159
Other creditors	-	265,000
Deferred capital grant	69,595	76,961
	78,486	361,120

Group	31.12.17 £	31.12.16 £
Age analysis of borrowings falling due:		
On demand or within one year	67,832	408,255
Between one and five years	8,891	19,159
	76,723	427,414

Ferro Techniek Group has Euro denominated bank overdrafts of £57,564 secured on its business assets with interest rates of one month Euribor plus 1% as at the balance sheet date.

15 PROVISIONS

	Deferred tax on pensions	Accelerated capital allowances	Guarantee liabilities	Total
Group	£	£	£	£
At 1st January 2017	(724,660)	103,600	45,102	(575,958)
Debit to profit and loss account	21,850	(59,116)	148,019	110,753
Credit taken to statement of changes in equity	853,290	-	-	853,290
Exchange differences	-	1,098	4,768	5,866
At 31st December 2017	150,480	45,582	197,889	393,951
Company	£	£	£	£
At 1st January 2017	(633,650)	-	-	-
Debit to profit and loss account	28,310	-	-	-
Debit taken to statement of changes in equity	735,300	-	-	-
At 31st December 2017	129,960	-	-	-

Deferred tax on pensions
The provision for deferred tax on the defined benefit pension scheme has changed from an asset to a liability as a consequence of the movement from a pension scheme deficit to a surplus.

Accelerated capital allowances
The provision for deferred tax on timing differences and unused tax losses is discussed in note 1 Taxation.

Guarantee liabilities
This relates to Jubilee Fees guaranteed in The Netherlands and a limited time sales guarantee on switchgear.

16 SHARE CAPITAL

Allotted, issued and fully paid	31.12.17 £	31.12.16 £
21 'A' ordinary shares of £1 each	21	21
413,801 'B' ordinary shares of £1 each	413,801	413,801
	413,822	413,822

The voting 'A' ordinary shares have different transfer rights, appoint the Directors of the company and are eligible to vote at General Meetings of the company. Dividend rights are the same for both types of shares.

17 RESERVES

Called up share capital represents the nominal value of shares that have been issued.
Other reserves relate to the capitalisation of reserves in China, which are considered to be non-distributable.
Profit and loss account includes all current and prior period retained profits and losses.

18 MINORITY INTERESTS

	31.12.17 £
At 1st January 2017	4,107,998
Profit on ordinary activities after taxation	519,617
Dividends	(71,920)
Earnout shortfall adjustment	663
Share of foreign exchange movements	(6,629)
At 31st December 2017	4,549,729

19 NET CASH INFLOW FROM OPERATING ACTIVITIES

	31.12.17	31.12.16
	£	£
Operating profit	2,602,062	2,786,589
Depreciation and amortisation (including amortisation of capital grants)	2,692,985	2,861,358
Decrease in purchased goodwill	3,040	20,311
FRS 102 pension scheme adjustments	(212,000)	249,000
Profit on sale of tangible fixed assets	(472,632)	(289,784)
Operating cash flow before movement in working capital	4,613,455	5,627,474
Increase in stocks	(293,595)	(732,660)
(Increase)/decrease in debtors	(360,470)	197,103
Increase in creditors	158,958	92,233
Increase/(decrease) in provisions	148,019	(622,735)
Currency translation differences	193,253	(24,989)
Reduction in value of investments	-	6,268
Cash generated by operations	4,459,620	4,542,694
Corporation taxes paid	(1,400,584)	(1,150,521)
	3,059,036	3,392,173

20 ANALYSIS OF CHANGES IN NET FUNDS

	As at 1.1.17	Cash flow	Exchange movements	As at 31.12.17
	£	£	£	£
Cash in hand and at bank	10,876,033	255,217	(393,633)	10,737,617
Bank overdrafts	(397,144)	335,146	4,434	(57,564)
	10,478,889	590,363	(389,199)	10,680,053

21 CAPITAL EXPENDITURE COMMITMENTS

	31.12.17	31.12.16
	£	£
Group		
Capital expenditure contracted for but not provided for in these accounts	661,770	661,770
Company		
Capital expenditure contracted for but not provided for in these accounts	178,200	282,283

22 FINANCIAL COMMITMENTS

Total future minimum payments under non-cancellable operating leases are:

Leasehold land and buildings	31.12.17	31.12.16
	£	£
Within 1 year	645,415	441,300
Between 1 and 2 years	526,337	604,290
Between 2 and 5 years	641,343	477,725
Over 5 years	-	-
	1,813,095	1,523,315

Other	31.12.17	31.12.16
	£	£
Within 1 year	73,251	70,555
Between 1 and 2 years	46,954	41,774
Between 2 and 5 years	64,513	27,304
	184,718	139,633

23 EMPLOYEE BENEFITS

Defined Contribution Schemes

The Group operates defined contribution schemes for several of its subsidiaries and for the parent company, the amount charged to the profit and loss account in respect of these pension costs and other post retirement benefits is the contributions payable in the year. The total cost charged to income by the Group in the year at the rates specified in the rules of the plans was £1,343,584 (2016: £685,573) of which accrued contributions of £84,418 (2016: accrual £73,762) are shown in the balance sheet.

Defined Benefit Scheme

The Company and St Davids Assemblies Ltd. are participating employers in the Otter Controls Ltd. Retirement Benefits Scheme providing funded benefits based on final pensionable earnings.

The assets of the Scheme are held in a separate trustee administered fund.
The most recent actuarial valuation of scheme assets and the present value of the defined benefit obligation were carried out at 31 December 2017 by Mr. P.Cunliffe, Fellow of the Institute of Actuaries. The present value of the defined benefit obligation, the related current service cost and past service cost were measured using the projected unit credit method.

The projected unit credit method is an accrued benefits valuation method in which the scheme liabilities make allowance for projected earnings. The accumulated benefit obligation (ABO) is an actuarial measure of the present value for service already rendered but differs from the projected unit credit method in that it includes no assumptions for future salary increases.

The Retirement Benefit Scheme was closed to employees commencing employment on or after 1 November 2002 and to service accrual from 31 October 2016.

FRS 102

Under the provisions of FRS 102 Retirement Benefits the following disclosures have been made in respect of the Otter Controls Limited Retirement Benefits Scheme:

a) The scheme is a defined benefit (final salary) funded pension scheme.

b) The most recent full actuarial valuation was carried out at 1st November 2016. The amounts detailed below have been estimated by independent consulting actuaries based on this valuation using approximate actuarial techniques and available information.

c) Employers' contributions including death in service premiums and levies, but excluding administration expenses and life assurance premiums in respect of the year ended 31st December 2017 were £403,000 (2016: £582,000) for the Group and £403,000 (2016: £558,000) for the Company. The current agreement as regards the contribution rate for future years is described in the schedule of contributions dated 14 November 2016.

d) The scheme is closed to new entrants. Under the projected unit method the current service cost (as a percentage of salary) will increase as the members of the Scheme age.

e) The scheme assets do not include investments issued by the sponsoring employers nor any property occupied by the sponsoring employers.

f) The overall expected rate of return on the scheme assets has been based on the average expected return for each asset class, weighted by the amount of assets in each class.

g) The scheme has no contingent assets or liabilities.

h) The impact of the change in the relevant index from RPI to CPI in 2011 in respect of the following, increased the Group pension surplus by £1.8 million (company's share estimated to be £1.5 million):

i) Revaluation of deferment for service before 6 April 2009;
ii) Pension increases for part of pensions accrued after 5 April 1997 but before 6 April 2005; and
iii) Pension increases post 5 April 2005 (capped at 2.5%).

23 EMPLOYEE BENEFITS (CONTINUED)

Assumptions:

The following assumptions have been made as at 31st December 2017 for the purpose of disclosures under FRS 102 for the Group and Company:

		31.12.17	31.12.16
		%	%
Rate of increase in salaries		n/a	n/a
Rate of increase in pensions:			
Pre 6 April 1997, excess over GMP		0.0	0.0
Post 5 April 1997		2.9	2.9
Post 6 April 2005		2.3	2.3
Rate of revaluation of deferred pensions in excess of GMP:			
Service before 6/4/09		2.5	2.5
Service post 5/4/09		2.5	2.5
Discount rate		2.45	2.6
Inflation assumption	- RPI	3.45	3.5
	- CPI	2.45	2.5
		Years	Years
Life expectancy at retirement age of 63	Male	24.4	24.6
	Female	26.2	26.8
Life expectancy at 63 if aged 43 now	Male	26.7	26.9
	Female	28.1	28.8

Notes:

1) The discount rate at 31st December 2017 has been based on the yield of an appropriate corporate bond.
2) The guaranteed pension increases payable are Limited Price Indexation (LPI) increases restricted to 5% on benefits accrued between 6th April 1997 and 5th April 2005 and LPI increases restricted to 2.5% on benefits accrued post 5th April 2005. The Scheme is no longer reserving for and granting discretionary increases on pre 6th April 1997 pensions. Discretionary increases have therefore not been provided for in these calculations.
3) Other assumptions are the same as those used in the ongoing actuarial valuation as at 1st November 2016. The post retirement mortality assumptions used to value the benefit obligation as at 31 December 2017 are based on the S2PxA Year of Birth tables (2016: S1NxA Year of Birth LC tables).

Fair value and expected return on assets

The fair market value and expected return on assets at 31st December 2017 were as follows:

Group	Long term rate of return expected			Market Value		
	31.12.17	31.12.16	31.12.15	31.12.17	31.12.16	31.12.15
	%	%	%	£	£	£
Equities	5.4	5.4	7.6	35,401,000	31,792,000	27,569,000
Bonds	2.1	2.1	4.3	22,389,000	17,740,000	19,560,000
Property	4.9	4.9	6.6	760,000	1,199,000	282,000
Other	0.3	0.3	0.5	4,064,000	6,945,000	3,510,000
Insured assets				22,888,000	23,955,000	21,784,000
Total fair market value				85,502,000	81,631,000	72,705,000

Company	Long term rate of return expected			Market Value		
	31.12.17	31.12.16	31.12.15	31.12.17	31.12.16	31.12.15
	%	%	%	£	£	£
Equities	5.4	5.4	7.6	30,559,000	27,797,000	24,150,000
Bonds	2.1	2.1	4.3	17,950,000	15,512,000	17,134,000
Property	4.9	4.9	6.6	656,000	1,048,000	247,000
Other	0.3	0.3	0.5	4,891,000	6,072,000	3,075,000
Insured assets				20,525,000	21,478,000	19,537,000
Total fair market value				74,581,000	71,907,000	64,143,000

23 EMPLOYEE BENEFITS (CONTINUED)

Reconciliation to the balance sheet	Group 31.12.17 £	Group 31.12.16 £	Group 31.12.15 £	Company 31.12.17 £	Company 31.12.16 £	Company 31.12.15 £
Total fair market value of assets	85,509,000	81,631,000	72,705,000	74,581,000	71,907,000	64,143,000
Less: present value of scheme liabilities	(84,717,000)	(85,445,000)	(69,337,000)	(73,897,000)	(75,242,000)	(61,192,000)
Recognisable asset/(liability) pre deferred tax	792,000	(3,814,000)	3,368,000	684,000	(3,335,000)	2,951,000

Changes in the present value of the defined benefit obligation are as follows:	Group 31.12.17 £	Group 31.12.16 £	Company 31.12.17 £	Company 31.12.16 £
Opening defined benefit obligation	85,445,000	69,337,000	75,242,000	61,192,000
Service cost and expenses	191,000	547,000	170,000	500,000
Interest cost	2,187,000	2,521,000	1,927,000	2,223,000
Employee contributions	-	196,000	-	180,000
Actuarial (gain)/loss	(220,000)	15,726,000	(1,002,000)	13,808,000
Benefits paid	(2,886,000)	(3,166,000)	(2,440,000)	(2,918,000)
Losses on curtailments	-	284,000	-	257,000
Closing defined benefit obligation	84,717,000	85,445,000	73,897,000	75,242,000

Changes in the present value of the plan assets are as follows:	Group 31.12.17 £	Group 31.12.16 £	Company 31.12.17 £	Company 31.12.16 £
Opening fair value of the scheme assets	81,631,000	72,705,000	71,907,000	64,143,000
Expected return	2,090,000	2,646,000	1,843,000	2,333,000
Actuarial gain	4,271,000	8,668,000	2,868,000	7,611,000
Employer contributions	403,000	582,000	403,000	558,000
Employee contributions	-	196,000	-	180,000
Benefits paid	(2,886,000)	(3,166,000)	(2,440,000)	(2,918,000)
Closing fair value of scheme assets	85,509,000	81,631,000	74,581,000	71,907,000

The amounts recognised in the profit and loss account are as follows:	Group 31.12.17 £	Group 31.12.16 £	Company 31.12.17 £	Company 31.12.16 £
Defined benefit service cost	60,000	409,000	55,000	373,000
Expenses	131,000	138,000	115,000	127,000
Losses on curtailments	-	284,000	-	257,000
Net interest cost/(credit)	97,000	(125,000)	84,000	(110,000)
Defined benefit scheme total cost	288,000	706,000	254,000	647,000
Defined contribution scheme costs	1,343,584	685,573	887,583	317,506
Life assurance and other costs	109,469	118,492	105,719	109,277
	1,741,053	1,510,065	1,247,302	1,073,783

Analysis of amount credited to other finance income:	Group 31.12.17 £	Group 31.12.16 £	Company 31.12.17 £	Company 31.12.16 £
Expected return on pension scheme assets	2,090,000	2,646,000	1,843,000	2,333,000
Interest on pension scheme liabilities	(2,187,000)	(2,521,000)	(1,927,000)	(2,223,000)
Net return	(97,000)	125,000	(84,000)	110,000

23 EMPLOYEE BENEFITS (CONTINUED)

Amounts recognised in the statement of recognised gains and losses:	Group 31.12.17 £	Group 31.12.17 £	Company 31.12.17 £	Company 31.12.16 £
Actual return less expected return on pension scheme assets	4,271,000	8,668,000	2,868,000	7,611,000
Gains & losses arising on the scheme liabilities	673,000	-	-	-
Changes in assumptions underlying the present value of the scheme liabilities	(453,000)	(15,726,000)	1,002,000	(13,808,000)
	4,491,000	(7,058,000)	3,870,000	(6,197,000)

The cumulative amount of actuarial gains and losses recognised in the group statement of changes of equity, is a loss of £6,573,454 (2016: loss of £10,443,454).

History of experience gains and losses: Group	Group 31.12.17 £	Group 31.12.16 £	Company 31.12.17 £	Company 31.12.16 £
Fair value of plan assets	85,509,000	81,631,000	74,581,000	71,907,000
Less: present value of defined benefit obligation	(84,717,000)	(85,445,000)	(73,897,000)	(75,242,000)
Surplus/(deficit) in the plan	792,000	(3,814,000)	684,000	(3,335,000)
Experience adjustments arising on plan assets	4,271,000	8,668,000	2,868,000	7,611,000
% of present value of scheme liabilities	5%	10%	4%	10%
Experience adjustments arising on plan liabilities	-	-	-	-
% of scheme assets	0%	0%	0%	0%

24 RELATED PARTIES

The following related party transactions were made during the year:
During the year the parent company sold goods and services to St Davids Assemblies Ltd. totalling £665,424 (2016: £659,702) and at the year end £471,012 (2016: £576,161) was owed.
During the year the parent company sold goods and services to Otter Controls (Asia) Ltd. totalling £1,837,276 (2016: £1,460,880) and at the year end £158,371 (2016: £298,775) was owed.
During the year the parent company sold goods to Otter Controls (Huizhou) Ltd. totalling £2,189,910 (2016: £2,317,398) and at the year end £1,000,207 (2016: £1,502,264) was owed.
During the year the parent company purchased goods from St Davids Assemblies Ltd. totalling £696,510 (2016: £461,039) and at the year end £49,439 (2016: £48,185) was owed.
During the year the parent company purchased goods from Otter Controls (Huizhou) Ltd. totalling £2,022,815 (2016: £306,758) and at the year end £113,571 (2016: £169,131) was owed.
During the year the parent company purchased services from Otter Controls (Asia) Ltd. totalling £160,212 (2016: £128,167) and at the year end £nil (2016: £nil) was owed.
There were no transactions between the parent company and Montgomery Thermostats Limited and at the year end the parent owed £1,743 (2016: £1,743).
There were no sales of goods between the parent company and Tarka Controls Limited and at the year end the parent owed £7,196,537 (2016: £7,776,537). Dividends of £257,636 (2016: £257,636) were paid to the parent company.

25 FINANCIAL INSTRUMENTS

The carrying value of the Group and company's financial assets and liabilities are summarised by category below:

Financial assets:	Group 31.12.17	Group 31.12.17	Company 31.12.17	Company 31.12.17
Debt instruments measured at amortised cost:	£	£	£	£
Trade and other debtors	8,980,713	8,025,398	1,353,036	1,829,980
Amounts due from subsidiaries	-	-	1,836,426	2,494,822
Cash and cash equivalents	10,737,617	10,876,033	880,367	1,210,773
	19,718,330	18,901,431	4,069,829	5,535,575

Financial liabilities:				
Measured at amortised cost:				
Bank overdraft	57,564	397,144	-	-
Trade and other creditors	9,400,579	9,449,207	1,832,794	1,475,278
Amounts due to subsidiaries	-	-	7,511,693	8,054,616
	9,458,143	9,846,351	9,344,487	9,529,894

The Group's and company's income, expense, gains and losses in respect of financial instruments are summarised below:

Interest income and expense:	Group 31.12.17	Group 31.12.17	Company 31.12.17	Company 31.12.17
	£	£	£	£
Total interest income for financial assets at amortised cost	12,373	75,312	13	20
Total interest expense for financial liabilities at amortised cost	10,259	10,790	-	-

26 ULTIMATE CONTROLLING PARTY

Dr D.Smith, a Director of Otter Controls Limited and members of his close family control the management of the company as a result of controlling, directly or indirectly 76% of the Ordinary A shares of the company.