Optare plc

REPORT AND FINANCIAL STATEMENTS

for the period ended 31 March 2012

Company Registration No. 06481690

Contents

Forward-Looking Statements

This document contains statements that are not historical facts, but forward-looking statements that involve risks and uncertainties, including the timing and results of vehicles trials, product development and commercialisation risks. These forward looking statements are based on knowledge and information available to the Directors at the date the Directors' Report was prepared, and are believed to be reasonable at the time of preparation of the Directors' Report, though are inherently uncertain and difficult to predict. Actual results or experience could differ materially from the forward-looking statements.

Chairman's Statement

Introduction
2011/12 was a period of major change to prepare the business for future growth. The major achievements in the period include:
- completing the move to a new bus manufacturing facility in Sherburn in Elmet, the first new major bus manufacturing facility in the UK since the 1970s, and the closure of the old facilities in Blackburn, Leeds and Rotherham;
- becoming part of Ashok Leyland Limited (Ashok) and of the wider Hinduja Group;
- delivering a large number of green bus products following the extensive development investment, giving Optare the position of the leading single deck hybrid bus manufacturer in Europe;
- completing the rebanking of the business to a level commensurate with the anticipated growth requirements;
- securing a major export contract with the City of Cape Town, which is expected to be the precursor to significant long term volume business.

As a strategic partner, Ashok were extremely supportive of the needs of the business. Ashok Leyland and its associates increased their stake in the Company in January 2012 to 75.1%, Subsequent to this increased stake, their support has both deepened and widened to a large measure, with cooperation across the business driving continuous improvements. I would like to thank Ashok for this support and we look forward to realising the significant mutual benefits from our renewed relationship.

Strategic Development
We remain committed to our aims of:-

- being an European leader in green bus technologies through the development of the full range of options from fuel-efficient diesels to dual fuel, hybrid and electric vehicles;
- consolidating and maintaining the UK leadership in the midi-bus market;
- offering a product portfolio with the full range of buses that is demanded by the UK bus market;
- becoming a significant exporter of buses;
- expanding the market share in UK and Europe by selling buses to global standards at competitive prices.

The Board is very pleased with the progress that has been made on all the above fronts during the period, as detailed in the Business and Financial Review.

Our Customers
Despite the significant changes to the business over the period, our customers have been very patient during a time of some disruption to the smooth process of meeting customer requirements. Their patience is appreciated and gratefully acknowledged.

Overwhelmingly, we have received excellent feedback from customers who have had the opportunity to visit the new Sherburn plant. They share our excitement at the opportunities that the plant presents for future products and innovation, and we remain committed to delivering high quality, innovative and value for money products.

Our People
The period continued to bring new challenges, which I am proud to say our management and workforce have risen to. Whilst some of the decisions have been difficult, I would like to thank all our employees for their dedication, flexibility and commitment during what has been a very difficult period.

Summary
2011/12 was a period of significant strategic progress in a difficult market. We look forward to working closely with Ashok Leyland in developing the business in both the UK and export markets in the years to follow.

John Fickling
Non-executive Chairman

Business and Financial Review

Three year turnaround summary

The management and Board agreed on a three year turnaround plan in June 2009 against what was an extremely challenging situation for the company. This radical strategy involved four key objectives focused not only on ensuring survival but also putting in place the long term foundations for business growth and success. On now completing the three years, a summary follows on the progress achieved;

1. Single site location

Central to the turnaround strategy has been the consolidation of operations from three sites onto a single modern site to reduce fixed costs, increase capacity and improve productivity. Having withdrawn production from Rotherham in Q3 2009, Optare completed the transfer of production from its former Leeds site to a brand new facility in Sherburn in Elmet in Q4 2011. The Leeds facility was subsequently handed back to the landlord following site clearance in December 2011 and has no ongoing liabilities. Finally the Blackburn facility was closed in May this year and the site is currently being cleared in readiness for hand back to its landlord. Additionally, while it has been a protracted process in a difficult commercial property market, the sale of the balance of the former Rotherham site has also been completed on 28 June 2012.

This consolidation of production involved a major investment in new facilities, outsourcing of component manufacturing and structure fabrication, operator training, improved IT systems, engineering data management and assembly process documentation. The key result of these changes has been to move Optare from a legacy of low volume traditional ‘coach building’ to a ‘high volume assembly’ model. This is expected to provide the business with the ability to support growth in fleet sales and in export markets including providing CKD kits.

The new facility at Sherburn in Elmet has already enabled the business to clearly identify further opportunities for operational efficiency improvements. The high visibility assembly process in the new factory has provided opportunities for enhanced engineering controls, better stock management, de-bottlenecking and improvements in build and supplier quality. It is very pleasing that the greater part of the existing Leeds workforce have been capable of making the change to the new Sherburn facility and we continue to upgrade the skills and competencies of the workforce as new practises roll out across the business.

The past year of transition has been a particular challenge for the business, which had to keep production running, whilst investing in and starting up a new site, shutting down the old sites, developing a CKD operation in South Africa along with introducing a number of new products. Within this context, we also had to manage some exceptional supplier issues, with causes ranging from the knock-on effect of the Japanese Tsunami to a component failure from a key supplier.

During the period ending 31st March a capital investment of £2.2m was made in the new factory.

2. New product and business development

Following a substantial investment of £3.2 million in 2010, we invested a further £1.6 million in 2011/12 into new product development. Highlights during the period include;

- Launch of the first full-sized single deck electric buses in the UK and now in service.
- Development and launch of an innovative lighter weight hybrid school bus in association with Transport for Greater Manchester. It has a capacity to seat 55 children and is now in service with five operators in the Greater Manchester area.
- We continue to make strong progress on a low cost flywheel system as an alternative approach to Diesel-electric hybrid technology.
- Full development of the export CKD Solo in kit form, initially for use in South Africa.
- Development with Ashok for the export of CKD Solo kits for the Indian and Middle East markets. Demonstrator vehicles have been completed and the first kits are to be supplied in Q3 2012.
- Launch of the new more fuel efficient Tempo SR 12m bus, which has now entered service.
- Development and launch later this year of a Versa product, principally for the London market, which addresses operators’ needs for a high capacity lighter-weight single deck product.
- Development of an 11.7m Versa targeted at the fleet market, with the initial vehicles going into major UK operators for evaluation in Q3.
- Work continues on the prototype of a new double deck bus, which is currently undergoing reliability trials.
- Further improvements to the Solo SR following the retirement of the original Solo.

Over the past three years from the initial development of the design concepts we have now delivered over 150 hybrid and electric vehicles in the UK and Europe, and are the leading European manufacturer of single deck hybrid and electric buses. In addition Optare is realigning its Versa product range to allow it to compete in the fleet market for larger single deck busses.

Business and Financial Review (Cont'd)

We were also very pleased to win a large CKD export order from the City of Cape Town, in cooperation with our South African partner, Busmark. This order was two years in the making and vindicated the long term strategy of seeding the right product into the right market well ahead of the competition, putting us in pole position to win the contract.

Finally in terms of export market development we are working closely with Ashok in terms of the geographic clusters of West Asia, Africa, ASEAN and Latin America they are actively developing as export markets. In addition we are working with Ashok sales teams in the Middle East where they have a well established base.

3. Strategic partnership
Given the increasingly global nature of the commercial vehicle industry, Optare's limited scale and its intrinsic challenges, the Board recognised that the best option to secure the future of the business was to secure a long-term partnership with a major volume bus manufacturer.

Following extensive discussions with other European and Asian manufacturers, in July 2010 we were delighted to announce that Optare had entered into a strategic co-operation with Ashok Leyland Limited (Ashok), part of the Hinduja Group, when Ashok acquired a 26% holding in Optare. Following a period of cooperation and joint assignments in 2011, Ashok and its associated companies increased their stake in the business to 75.1% and provided corporate guarantees which enabled Optare to pay down the balance of its fixed term debt with Lloyds/Bank of Scotland (BoS) and facilitated re-banking with HSBC, thereby providing working capital facilities as needed.

This move also enabled Optare to become more closely integrated into Ashok's ambitious global bus strategy which seeks to maintain and improve on their aspiration to be among top five global bus manufacturers. Through leveraging the synergies of the two companies, we are confident that going forward we will be able to reduce supply chain costs, accelerate technology sharing and fast-track growth in export markets.

4. Long-term Refinancing
Optare has suffered during the turnaround from its legacy of relatively high term debt and its incumbent covenant conditions coupled with the lack of general credit insurance in the market, both putting substantial pressure on day to day working capital requirements of the business.

The full extent of £7.5m of term debt owed to Lloyds/BoS in June 2009 has been paid back with all fixed and floating charges held over the business now released. Optare has now re-banked with HSBC and has a working capital facility supported by Ashok at competitive borrowing rates.

Financial performance

The Group's financial performance for the period ended 31 March 2012 is reported in the Directors' Report, however key highlights for the period ending are;
- Revenue for the 15 month period £72m.
- Capital investment of £2.2m made in the new factory as forecast.
- Direct labour costs were 13.6% of revenue over the 15 month period (14.3% 2010), this compares with the last three months run-rate at the new Sherburn facility of 9.4%, demonstrating the significant efficiency improvements of the new single site.
- Administration costs pre-exceptional were 14.4% of turnover over the 15 month period (14.7% 2010), this compares with the last three months run-rate of 9.0% with the cost benefits of the Blackburn closure yet to be fully reflected.
- EBITDA losses for the 15 month period were £6.8m pre-exceptional. Management estimate this includes around £2.9m of costs that could have been avoided had it not been for needing to stagger factory closures and outsourcing activities, undertake major site clearance work and retain skills during production transfers.
- Exceptional costs for restructuring, redundancies, relocation and the factory moves totalled £4.6m.
- Loss per share reduced from 2.1p per share to 1.4p per share
- Remaining term debt with Lloyds Bank of Scotland paid down and all fixed and floating charges released.
- New working capital facility agreed with HSBC and supported by Ashok.
- Tax losses at current corporation tax rates equivalent to approximately £9.3m will be useable when the Group returns to profitability.

Current trading

On the 31st March 2012, the order book stood at £45.7 million. However while the current economic environment remains challenging, particularly in the Eurozone, Optare's UK market registrations are up 62% so far in 2012 and turnover is now annualising at over £100m following record revenues for the past three months of £26m.

In addition we are seeing the benefits as shown in the financial summary of the efficiency improvements of the new single site in Sherburn with Labour cost for the last three months reducing to 9.4% of sales, and administration costs reducing to 9.0% of sales. With increasing turnover, a lower single site cost base and the restructuring costs behind us the company is on target to move into profit during 2012.

Following the introduction into service of our 11.1m electric Versa along with our fast charging system we have had customers show very strong interest. The feedback we are receiving from many operators is that, with the increase in fuel costs and greater environmental challenges, a key market trend will be towards electric buses. Optare is uniquely positioned to exploit this opportunity and is actively working to develop supply chains to allow production to be quickly scaled as demand develops.

We are currently working on a number of tenders in the Middle East and Far East to further expand our export operations, as well as building on the South African presence. We are also looking to exploit opportunities in a number of Western Europe markets as fiscal pressures are moving operators to consider smaller more fuel efficient buses for which we have a strong product offering.

Board and management changes

Following the increase in Ashok's stake in the company, the Board has been reorganised to take advantage of the supporting strengths of Ashok executives, as well as a very experienced industry professional during the year. Mr Halonen, a former Chairman of Volvo Bus Corporation, joined the Board in September 2011. Mr Sridharan, CFO of Ashok, Mr Nilsson, International Operations Director, Ashok, and Mr Kathuria, Global Strategic Sourcing and Supply Chain Director of Ashok, joined the Board in March 2012.

To support growth of the business, the company continues to strengthen its senior and middle management team following the significant restructuring, both drawing on Ashok resources and key industry experienced personnel.

Outlook

The focus and thrust during the last three years was on the turnaround of Optare from an extremely challenging position. Although trading conditions during 2010 and 2011 have been tough, we have successfully reshaped the business so that it is well positioned to take advantage of the opportunities that we foresee in the UK and export markets.

The Board anticipates an increase in the UK demand, particularly for single-deck buses in 2013, driven by an expected pre-buy of buses ahead of Euro VI introduction and to comply with the Disability Discrimination legislation mandated for all single-decker buses by 2014. The increased capacity at our new site in Sherburn is timely and will enable us to be able to meet this anticipated extra production demand. In addition the Company is making good progress in export markets and is qualifying to tender for substantial contracts with the support of Ashok.

The Board looks forward to 2012 and beyond with confidence given the benefits of the new factory in Sherburn, the investment in low carbon bus technology, a developing export business and the support of its major shareholder Ashok. With the objectives of the three year turnaround plan largely achieved, and with the formation of deeper and wider cooperation with Ashok, focus has now turned to accelerating growth from the firmly established foundations.

Jim Sumner
Chief Executive Officer

Directors and Advisors

DIRECTORS

John Fickling (Non-executive Chairman)

John Fickling is a qualified engineer. He has over 25 years' experience in the transport industry as a former major shareholder and executive Director of Northumbria Buses and Kentish Bus, developing the latter into one of the largest privately owned London bus companies operating for Transport for London. He was chief executive of Sunderland AFC for 11 years, where he oversaw the building of the Stadium of Light and the new training academy and had significant involvement in its full stock market listing in the late 1990s. John is very well known across the industry and has a keen interest in green issues in public transport. He is chairman of the Remuneration Committee.

James (Jim) Sumner (Chief Executive Officer)

Jim Sumner has a strong track record in lean manufacturing management and international business development, with over 20 years' experience within the Commercial Vehicle and Engineering sectors of global businesses. In the past decade Jim has led the transformation of Leyland Trucks, following its acquisition by PACCAR, into an acknowledged world class manufacturer which gained Queen's Award recognition for exporting to 44 countries world-wide. Jim is a chartered engineer, Fellow of the Institute of Engineering & Technology and completed the Stanford Executive Program in 2005. He joined Optare in June 2009.

Jorma Halonen, (Non-executive Director)

Jorma Halonen is a Finnish citizen, and brings significant global industry experience to Optare after over 18 years' working in the global bus and truck industry. He spent seven years working with the Volvo Group, latterly as the Group Deputy CEO and Chairman of Volvo Bus Corporation. Prior to that Mr Halonen was President and CEO of Volvo Truck Corporation. Before joining the Volvo Group, he was President and CEO of Scania Latin America in Sao Paulo, Brazil and President and CEO for Oy Scan-Automotive AB (a Scania importer) in Helsinki, Finland.

Anuj Kathuria (Non-executive Director)

An Engineering Graduate from BITS and an MBA from XLRI, Jamshedpur, Mr Kathuria brings a wealth of experience across multiple functions including manufacturing, sourcing, mergers and acquisitions and program management. He also undertook a two year overseas assignment as head of global sourcing. With Ashok since 2010, he heads Ashok's Strategic Sourcing and Supply Chain and is responsible for all supply chain activities, including bringing synergistic benefits to Optare's material sourcing and cost.

P G Nilsson (Non-executive `Director)

Holding degrees in Business Administration, Political Sciences and Social Sciences, Mr Nilsson (known as "PG") brings to Optare significant global experience and market knowledge having handled international assignments with leading commercial vehicle manufacturers. He joined Ashok in 2010, after having spent more than seven years as Managing Director of Scania CIS, followed by four years as Managing Director of MAN Russia/Regional Director CIS. He is the former Chairman of Scania Leasing Russia, and was also Chairman of the Board of Scania Peter, Scania's bus factory in Russia.

K Sridharan (Non-executive Director)

Having been with Ashok for close to three decades, Mr Sridharan (known as "KS") is a B Com graduate, cost accountant and an Associate Member of the Institute of Chartered Accountants of India. He heads the finance function of Ashok, is a Director of Hinduja National Power Corporation Ltd and is on the board of several Group/joint venture companies. He actively participates in industry forums. On his appointment as a Non-executive Director KS became chairman of the Audit Committee.

Venkatesan Venkataraman (Non-executive Director)

Venkat Venkataraman is currently President of Business Development & Strategy for Hinduja Automotive Limited, responsible for Strategy, M&A and Business Development activities of the Hinduja Group's automotive interests based in the UK. Starting as a Graduate Engineer in Ashok, he has over 30 years' experience in Industrial Engineering, Business and Corporate Planning functions. He was briefly COO of Avia Ashok Motors s.r.o in Prague in 2006-07 where he played a key role in the acquisition and stabilisation of operations. He led the Ashok negotiations for their initial stake and, subsequently, their increased stake in Optare.

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Company Secretary

Peter Phillips

Nominated Adviser and Broker

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Solicitors to the Company

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Auditors

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LS1 4HG

Registrar

Capita Registrars
The Registry
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BR3 4TU

Directors' Report

The Directors submit their report and the financial statements of Optare plc for the period ended 31 March 2012.

Principal Activities

The Group is engaged in bus design, manufacture, sales, coach sales, aftermarket support and bus refurbishment.

Results And Dividends For The Period Ended 31 March 2012

The results for the period shown in the Consolidated Income Statement on page 19 comprise the results of the Group for the period ended 31 March 2012. The comparative period comprises the results of the Group for the year ended 31 December 2010. The Company's year-end was changed from 31st December 2011 to bring it into line with the year-end of Ashok Leyland Limited.

Revenue for the period was £71.9m (2010: £52.3m) and loss from operations before exceptional items was 8.2m (2010: £4.1m).

Exceptional items at £4.6m (2010: £2.2m) reflect the significant amount of restructuring and closure costs incurred in the period. Included are the costs of the disruption of the closure of the Leeds site and start-up in Sherburn, and the decision to consolidate production onto one site, resulting in further downsizing of the workforce following the ceasing of manufacturing of new buses in Blackburn and the closure of that site. The costs include the costs of redundancy and notice periods of £1.0m.

Net interest cost rose to £0.6m (2010: £0.3m), reflecting the higher working capital requirements for the increased business. Basic and fully diluted loss per share fell to 1.4p (2010: 2.1p). Loss per share before exceptional items was 0.9p (2010: 1.4p)

No dividends were paid during the period and the Board does not propose the payment of any dividend in respect of the period.

Cash Flow And Net Debt

Operating cash outflow before movements in working capital for the period was £11.2m (2010: £4.6m).

The Directors are confident that following a peak in working capital requirement in the first half of 2012, net debt will fall as the benefits to inventory and work-in-progress from being on one site fully flow through, and the inital phase of the South African project comes to fruition. The Company has renegotiated its banking facilities, which are guaranteed by Ashok.

Future Developments

A Summary of the future developments can be found in the current trading prospects section of the business and financial review.

Key Performance Indicators

The Directors regularly monitor the business on a number of key performance indicators, including bus sales, direct labour per bus, material cost per bus and overheads per bus.

Financial Instruments

The Group's financial instruments comprise cash, finance leases and short term debtors and creditors arising from its operations. The principal financial instruments used by the Group are loans which, together with cash raised from share issues by the Company are applied in financing the Group's fixed assets. The Group has not established a formal policy on the use of financial instruments but assesses the risks faced by the Group as economic conditions and the Group's operations develop. Further disclosures relating to financial instruments are included in the Summary of Significant Accounting Policies.

Political And Charitable Contributions

There were no political contributions during the period. Charitable contributions were £nil in the period (2010:£ nil)

Market Value Of Land And Buildings

The Group's sole freehold site at Hellaby Way, Rotherham has been actively marketed for sale and the first part of the site was disposed of in June 2011. Following the end of the period to 31 March 2012, an offer was accepted for the remaining part of the Rotherham site, and this sale was completed on 28 June 2012, realising £1 million for the business. Subsequent to this the Group has no further freehold land and buildings.

Research And Development

The Group does not carry out research, all efforts being focussed on development. The Group has one of the strongest product development teams in the industry, generating advanced product designs in accordance with customer needs, legislative requirements and market trends, integrated with market leading technology suppliers. Progress on development is reviewed in the Business and Financial Review.

Events Since The End Of The Period

Other than as noted in the Market Value of Land and Buildings section above, there have been no significant events since the end of the period.

Directors

Directors who served in the period are as follows:
John Fickling
Jim Sumner
Jorma Halonen (appointed 27 September 2011)
Anuj Kathuria (appointed 9 March 2012)
Mr PG Nilsson (appointed 9 March 2012)
Mr K Sridharan (appointed 9 March 2012)
Venkat Venkataraman (appointed 9 May 2011)
Mike Dunn (resigned 9 May 2011)
David Maughan (resigned 14 January 2011)
Peter Phillips (appointed 6 June 2011, resigned 9 March 2012)
Glenn Saint (resigned 14 March 2011)
Mr R. Seshasayee (resigned 9 March 2012)
David Stonehouse (resigned 27 September 2011)
Dr V. Sumantran (resigned 9 May 2011)

Disabled Persons

It is the policy of the Group that disabled people should have the same consideration as others for all job vacancies for which they apply as suitable candidates.

Employee Involvement

The Group encourages the involvement of its employees through regular dissemination of information of particular concern to employees, including a weekly newsletter.

Directors' Report (continued)

Policy On Payment Of Creditors

It is Group policy to agree and clearly communicate the terms of payment as part of the commercial arrangements negotiated with suppliers and then to pay according to those terms based on the timely receipt of an accurate invoice.

Trade creditor days based on creditors at 31 March 2012 were 73 days (2010: 114 days.)

Substantial Shareholdings

Information on substantial shareholdings and shares not in public hands is reported on our website www.optare.com in accordance with Rule 26 of the AIM Rules (June 2009). Ashok Leyland Ltd. together with its associated companies, Ashley Holdings Ltd. and Ashley Investments Limited, own 75.1% of the share capital of the business. Ashok Leyland Ltd is classified as the immediate parent of the Company as it exercises control of the two associated companies through its employees who represent Ashok on the associated companies' boards. The Board has authorisation from the 6th January 2012 shareholders' General Meeting to issue warrants to maintain this percentage on the exercise of share options or other outstanding warrants. The Company's ultimate parent is Amas Holding S.A, a company incorporated in Luxembourg.

Related Party Transactions

Details of transactions with Ashok Leyland and associated companies can be found in note 27 related party transactions.

Directors' Interest In Contracts

No Director had a material interest at any time during the period in any contract of significance, other than a service contract, with the Company or any of its subsidiary undertakings.

Going Concern

The Directors have made enquiries into the adequacy of the Group's financial resources, through a review of the current financial projections, which includes capital expenditure plans and cash flow forecasts and the funding facilities available. Accordingly, the Directors have satisfied themselves that the Group will continue in operational existence for the foreseeable future and therefore have continued to adopt the going-concern basis in preparing the Group's financial statements. Further disclosures are made on the matters considered by the Directors and related uncertainties in the 'summary of significant accounting policies' in the financial statements.

Key Risks

The key risks that might materially affect the financial performance of the Group are:

Changes in legislation
Legislative changes may require investment in new product developments or adaptations which will incur cost. Design changes are regularly made to address legislative changes well ahead of their legal introduction.

Decrease in market demand and competition
The Group operates in a market where there are a number of competitors whose actions may affect the level of turnover of the Group. Market demand, whilst underpinned by strong long-term drivers, may fluctuate over the short- to medium-term. The Board is actively pursuing a policy to decrease the dependency on the UK market by increasing focus on export markets.

Introduction and production of new technologies
The introduction and start-up of production of new technologies, such as hybrid technology, carries a technical and execution risk. The Group continuously works with major global suppliers to evaluate new technology developments and how best to improve designs, introduce them into products and incorporate them into assembly production.

Supply chain
The Group is currently dependent upon key suppliers to ensure continuity of production. Interruption of such supply may have a detrimental effect on the Group's revenue stream and resultant operating results. Common sourcing strategies are being pursued with Ashok to reduce the dependency on any one supplier.

Customer relationships
Optare plc continues to trade with a number of customers, the future business of which cannot be guaranteed beyond the terms and conditions of existing contracts as referred to by separate disclosure. Significant effort is put into maintaining and developing Optare's long-term reputation with both existing customers and new customers.

Start-up of new plant
The Group has concentrated production on one site in Sherburn in Elmet, which started full production in October 2011. The initial start-up phase is now complete and the plant has to consistently deliver higher volumes. Significant management time is being spent to maximise the efficiency of the new plant to meet these volumes.

Credit, liquidity, foreign currency and cash flow risks are discussed within the Consolidated Financial Statements Summary of Significant Accounting Policies.

Auditor

Baker Tilly UK Audit LLP has indicated their willingness to continue in office and a resolution that they be re-appointed as Auditor will be proposed at the annual general meeting.

Statement As To Disclosure Of Information To The Auditor

The Directors who held office at the date of approval of this Directors' Report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditor is unaware, and each 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.

Directors' Indemnity

Every Director shall be indemnified by the Company out of its own funds. An appropriate insurance policy is in place.

This report was approved by the Board of Directors and authorised for issue on 28 June 2012 and signed on its behalf by:

John Fickling
Non-Executive Chairman
28 June 2012

Corporate Governance

Principles of Corporate Governance

The Company is committed to high standards of corporate governance. The Board is accountable to the Company's shareholders for good corporate governance. The Company has partially complied throughout the period with the main principles of the Financial Reporting Council's UK Corporate Governance Code 2010.

The role of the Board is to provide entrepreneurial leadership of the Company within a framework of prudent and effective controls, which enables risk to be assessed and managed. The Board sets the Company's strategic aims, ensures that the necessary financial and human resources are in place for the Company to meet its objectives and reviews management's performance. The Board sets the Company's values and standards and ensures that its obligations to its shareholders and others are understood and met.

Board Structure

Following Ashok and its associated companies' increase to 75.1% of the shares in the Company in January 2012, the Board has evolved to a structure of an independent Non-executive Chairman, one executive Director, being the CEO, and five Ashok nominated Non-executive Directors.

Directors' dates of appointment and resignation are detailed in the Directors' Report.

Board Role

The Board is responsible to shareholders for the proper management of the Group. The Non-Executive Directors have a particular responsibility to ensure that the strategies proposed by the Executive Director are fully considered. To enable the Board to discharge its duties, all Directors have full and timely access to all relevant information and there is a procedure for all Directors, in furtherance of their duties, to take independent professional advice, if necessary, at the expense of the Group. The Board has a formal schedule of matters reserved to it. It is responsible for overall Group strategy, approval of major capital expenditure projects and consideration of significant financing matters. The Board met on fifteen separate occasions in the period.

Appointment and Induction of Directors

The composition of the Board is kept under review with the aim of ensuring that the Directors collectively possess the necessary skills and experience to direct the Group's business activities.

Board Committees

The Board delegates certain matters to its two principal committees, which deal with remuneration and audit.

Remuneration Committee

The Remuneration Committee comprises the independent Non-executive Directors John Fickling and Venkat Venkataraman. The Remuneration Committee determines and agrees with the Board the framework of remuneration for the Executive Director and certain senior management employees. The Board itself determines the remuneration of the Non-executive Directors. There were two remuneration committee meetings in the period which were fully attended. The report on Directors' remuneration is set out on page 14.

Audit Committee

The Audit Committee comprises the Non-executive Directors K Sridharan (Chairman), John Fickling and Venkat Venkataraman.

Meetings are also attended, by invitation, by the Chief Financial Officer.

The Audit Committee is responsible for:

- Reviewing the scope of external audit, to receive regular reports from Baker Tilly UK Audit LLP.
- Reviewing the half-year and annual accounts prior to their recommendation to the Board.
- Reviewing the Group's internal financial controls and risk management systems and processes.
- Making recommendations on the appointment, re-appointment and removal of external auditors and approving the terms of engagement.
- Reviewing the nature of the work and level of fees for non-audit services provided by the external auditors.
- Assessing the independence, objectivity and effectiveness of the external auditor.

The committee met on two occasions during the period and the meetings were fully attended.

Internal Control

The Board has overall responsibility for the Group's system of internal control and risk management and for reviewing the effectiveness of this system. Such a system can only be designed to manage, rather than eliminate, the risk of failure to achieve business objectives and can therefore only provide reasonable, and not absolute, assurance against material misstatement or loss. The Board are of the view that due to the current size and composition of the Group it is not necessary to establish an internal audit function.

Relations with Shareholders

The Company values its dialogue with both institutional and private investors. Effective two-way communication with fund managers, investors and analysts is actively pursued and this encompasses issues such as performance, policy and strategy. During the period the Directors had many meetings with institutional investors. Private investors are encouraged to participate in the Annual General Meeting at which the Non-executive Chairman presents a review of the results and comments on current business activity. Members of the Audit and Remuneration Committees will be available at the Annual General Meeting to answer any shareholder questions. The next Annual General Meeting will be held on 3 August 2012. The notice of the Annual General Meeting may be found at the end of this document.

Going Concern

The Directors confirm that they are satisfied that the Company and Group have adequate resources to continue in business for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements. Further disclosures are made on Page 23.

John Fickling
Non-Executive Chairman
28 June 2012

Directors' Remuneration Report

The Company has established a Remuneration Committee which comprises the independent Non-executive Directors John Fickling and Venkat Venkataraman. The committee is chaired by John Fickling.

Remuneration Policy

The policy of the Committee is to reward executive directors in order to recruit, motivate and retain high quality executives within a competitive market place.

There are four main elements of the remuneration packages for executive directors and senior management:

- Basic annual salary (including Directors' fees) and benefits;
- Annual bonus payments which cannot exceed 100% of salary;
- Share option incentives; and
- Pension arrangements.

Basic salary

Basic salary is reviewed annually in March with increases taking effect from 1 April. In addition to basic salary, the Executive Director also receives certain benefits in kind, principally private medical insurance and car. No pay rises were awarded during the period.

Annual bonus

The purpose of the annual bonus is to reward the Executive Director and other senior management for achieving above average performance compared to appropriate industry targets, which would also benefit shareholders. Incentive payments for the fifteen months ended 31 March 2012 totalled £75,000 (2010: £115,154)) and related to the successful completion of the March 2011 share placing.

Share option incentives

The Group offers share options to the Executive Director and other senior employees to facilitate the recruitment of candidates of appropriate experience and qualification. In the period ended 31 March 2012, 12,000,000 share options were issued with exercise prices between 1.6 pence and 2 pence per share (2010: Nil issued). The exercise of the outstanding options is not dependent on performance criteria, but options are subject to a two-year lock-in period from the date of issue, apart from those issued to Jim Sumner in 2011. The Company is reviewing its policy in respect of future tranches of share options or whether a long term incentive plan will be put in place.

Pension arrangements

The Executive Director is a member of a money purchase pension scheme to which the Group contributed at 10% of salary. No other payments to Directors are pensionable.

Directors' Contracts

It is the Company's policy that the Executive Director should have a contract with an indefinite term providing for a maximum of one year's notice. In the event of early termination, the Director's contracts provide for compensation up to a maximum of basic salary for the notice period.

Non-Executive Directors

The fees of independent Non-executive Directors are determined by the Board as a whole having regard to the commitment of time required and the level of fees in similar companies. Non-executive Directors are employed by letter of appointment. Non-executive Directors are not entitled to participate in the Company's pension scheme.

Directors' emoluments and compensation

	Notes	Salary £	Benefits £	Bonuses £	Other £ d	2010 Total £	2009 Total £
Exec Directors							
Jim Sumner	a	250,000	16,218	50,000	63,453	379,671	263,474
Mike Dunn	b	170,738	5,158	15,000	8,361	199,257	155,897
Peter Phillips		114,549	13,452	0	0	128,001	0
Glenn Saint		20,430	3,732	10,000	4,649	38,811	110,653
Non Executive Directors							
John Fickling		109,875	0	0	0	109,875	102,865
Jorma Halonen		5,130	0	0	0	5,130	0
Anuj Kathuria		0	0	0	0	0	0
David Maughan		2,500	0	0	0	2,500	38,436
Mr PG Nilsson		0	0	0	0	0	0
Mr R. Seshasayee		0	0	0	0	0	0
Mr K Sridharan		0	0	0	0	0	0
David Stonehouse	c	37,500	0	0	119	37,619	42,490
Dr V. Sumantran		0	0	0	0	0	0
Venkat Venkataraman		0	0	0	0	0	0
Total		710,722	38,560	75,000	76,582	900,864	713,815

Notes

a J Sumner's other payments include an employer's pension contribution of £31,667 relating to prior years' service.
b M Dunn's emoluments for the period included £122,000 for loss of office.
c D Stonehouse's emoluments for the period included £15,000 for loss of office.
d Other principally includes employer pension contribution.

Directors share options

	Options at 1.1.11	Options granted in year	Options at 31.03.12	Exercise price (pence)	Market price at date of exercise (pence)	Exercise period	Expiry date
John Fickling	250,000	-	250,000	1.00p	na	10 years	03/07/2019
John Fickling	250,000	-	250,000	4.15p	na	10 years	03/07/2019
Jim Sumner	1,000,000	-	1,000,000	4.15p	na	10 years	03/07/2019
Jim Sumner	-	5,000,000	5,000,000	1.60p	na	10 years	07/10/2021
Peter Phillips	-	2,000,000	2,000,000	2.00p	na	10 years	16/06/2021
Peter Phillips	-	2,000,000	2,000,000	1.60p	na	10 years	07/10/2021

No options lapsed during the period. No options were exercised during the period..

Directors' interests in shares

No's

Directors' interests in the shares of Optare plc as at 31 March 2012 were:

	No.
John Fickling	3,722,355
Jim Sumner	1,895,497
Total	5,617,582

No other Director had any interest in the shares of Optare plc as at 31 March 2012.

The market price of shares at 30 March 2012 (being the last trading day in the period) was 0.80p and the range during the year was 0.24p to 3.50p.

Approval

This report was approved by the Board of Directors and authorised for issue on 28 June 2012 and signed on its behalf by:

John Fickling
Chairman of Remuneration Committee

Directors' Responsibilities In The Preparation Of Financial Statement

The Directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare Group and Company financial statements for each financial period. The Directors are required by the AIM Rules of the London Stock Exchange to prepare Group financial statements in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union ("EU") and have elected under Company law to prepare the Company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law).

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

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

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

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

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

c. for the Group financial statements, state whether they have been prepared in accordance with IFRSs adopted by the EU and for the Company financial statements state whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the Company financial statements;

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

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

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Optare plc website.

Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Independent Auditor's Report to the Members of Optare plc

We have audited the Group and parent company financial statements ("the financial statements") which comprise the Consolidated Income Statement, the Consolidated Statement of Changes in Equity, the Consolidated Balance Sheet, the Consolidated Cash Flow Statement, the Company Balance Sheet, and the Consolidated Financial Statements Summary of Significant Accounting Policies and the related notes. The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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.

Respective responsibilities of Directors and Auditors

As more fully explained in the Directors' Responsibilities Statement set out on page 16, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the APB's website at www.frc.org.uk/apb/scope/private.cfm.

Opinion on the financial statements

In our opinion

- the financial statements give a true and fair view of the state of the Group's and of the parent company's affairs as at 31 March 2012 and of the Group's loss for the period then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

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

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements 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.

Andrew Allchin (Senior Statutory Auditor)
For and on behalf of BAKER TILLY UK AUDIT LLP, Statutory Auditor
Chartered Accountants
2 Whitehall Quay
Leeds LS1 4HG
28 June 2012

Optare Plc
Company Registration No. 06481690

Consolidated Income Statement

For the Period ended 31 March 2012

	Notes	Before Exceptional items	Exceptional items	Total	Before Exceptional items	Exceptional items *	Total
		Period ended 31 Mar 2012 £'000	Period ended 31 Mar 2012 £'000	**Period Ended 31 Mar 2012 £'000**	Year ended ended 31 Dec 2010 £'000	Year ended ended 31 Dec 2010 £'000	**Year ended ended 31 Dec 2010 £'000**
Revenue		71,935	-	**71,935**	52,271	-	**52,271**
Cost of sales		(68,370)	(3,823)	**(72,193)**	(47,826)	(1,430)	**(49,256)**
Gross profit/(loss)		3,565	(3,823)	**(258)**	4,445	(1,430)	**3,015**
Administrative expenses		(10,812)	(776)	**(11,588)**	(7,681)	(733)	**(8,414)**
Distribution costs		(493)	-	**(493)**	(524)	-	**(524)**
Amortisation of intangible assets	11	(422)	-	**(422)**	(290)	-	**(290)**
Loss from operations	3	(8,162)	(4,599)	**(12,761)**	(4,050)	(2,163)	**(6,213)**
Finance costs	5	(853)		**(853)**	(393)	-	**(393)**
Finance income	5	222	-	**222**	93	-	**93**
Loss for the period from continuing operations		(8,793)	(4,599)	**(13,392)**	(4,350)	(2,163)	**(6,513)**
Loss on ordinary activities before taxation		(8,793)	(4,599)	**(13,392)**	(4,350)	(2,163)	**(6,513)**
Taxation	6	-	-	-	73	-	**73**
Loss attributable to the equity holders of the parent company		(8,793)	(4,599)	**(13,392)**	(4,277)	(2,163)	**(6,440)**

Loss per share (Note 8):	Period Ended 31 Mar 2012	**Year Ended 31 Dec 2010**
From continuing and discontinued operations (basic and diluted)	(1.4)p	(2.1)p

There are no other recognised items of income and expense other than those presented above.

*Comparative data has been restated by moving £2,163,000 from restructuring and other exceptional costs to cost of sales £1,430,000 and administration expenses £733,000, to better reflect the classifications of certain costs (Note 2).

Consolidated Statement of Changes in Equity
For the Period ended 31 March 2012

	Share capital	Share premium	Merger reserve	Retained Loss	Share based payment reserve	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Balance at 1 January 2010	2,324	22,620	5,542	(26,345)	27	4,168
Loss for the year	-	-	-	(6,440)	-	(6,440)
Total comprehensive income for the year	-	-	-	(6,440)	-	(6,440)
Transactions with owners in their capacity as owners:-						
Issue of shares and warrants	1,497	4,139	-	1,648	-	7,284
Total transactions with owners in their capacity as owners	1,497	4,139	-	1,648	-	7,284
Balance at 31 December 2010	3,821	26,759	5,542	(31,137)	27	5,012
Loss for the period	-	-	-	(13,392)		(13,392)
Total comprehensive income for the period	-	-	-	(13,392)	-	(13,392)
Transactions with owners in their capacity as owners:-						
Issue of shares	5,184	6,219	-	-	171	11,574
Transaction Costs		(582)				(582)
Total transactions with owners in their capacity as owners	5,184	5,637	-	-	171	10,992
Balance at 31 March 2012	9,005	32,396	5,542	(44,529)	198	2,612

The merger reserve was created when Optare plc acquired Optare UK Ltd (formerly known as Darwen Group Ltd) via a share for share transaction.

Fair value of warrants issued within the period is £ nil (2010: £1,648,000)

Optare Plc
Company Registration No. 06481690

Consolidated Balance Sheet
at 31 March 2012

	Notes	31 March 2012	31 December 2010
		£'000	£'000
Non – Current Assets			
Goodwill	10	8,574	8,574
Other intangible assets	11	8,032	6,872
Property, plant and equipment	12	3,126	2,312
		19,732	17,758
Current Assets			
Inventories	13	11,275	7,742
Trade and other receivables	14	8,143	4,774
Cash & cash equivalents		587	-
		20,005	12,516
Assets held for sale	15	1,000	2,000
Total Assets		40,737	32,274
Current Liabilities			
Trade and other payables	17	20,167	17,031
Loans and overdrafts	16	15,207	5,427
Provisions	18	1,405	1,245
Obligations under finance leases	19	49	23
		36,828	23,726
Non Current Liabilities			
Bank loans	16	0	1,912
Provisions	18	1,053	1,600
Obligations under finance leases	19	245	24
		1,297	3,536
Total Liabilities		38,125	27,262
Net Assets		2,612	5,012
Equity			
Share capital	21	9,005	3,821
Share premium		32,396	26,759
Share based payment reserve		198	27
Merger reserve		5,542	5,542
Retained loss		(44,529)	(31,137)
Total equity attributable to equity holders of the parent		2,612	5,012

The financial statements on pages 19 to 43 were approved by the Board of Directors and authorised for issue on 28 June 2012 and are signed on its behalf by:

J Sumner
Director

Consolidated Cash Flow Statement
For the Period ended 31 March 2012

	Notes	Period ended 31 Mar 2012 £'000	Year ended 31 Dec 2010 £'000
Operating activities			
Cash absorbed by operations	25	(14,946)	(3,418)
Interest paid	5	(853)	(393)
Net cash used in operating activities		(15,799)	(3,811)
Disposal of assets held for sale	15	1,000	
Purchase of property, plant and equipment		(1,920)	(75)
Internal capitalised costs	11	(1,582)	(3,209)
Interest received	5	222	93
Net cash used in investing activities		(2,280)	(3,191)
Financing activities			
Proceeds from issuance of ordinary shares		10,821	7,284
Hire purchase agreement repayments		(23)	-
Loan repayments		(3,395)	(3,407)
Short term loan		9,995	1,224
Net cash generated from financing activities		17,398	5,101
Net (decrease) in cash and cash equivalents		(681)	(1,901)
Cash and cash equivalents at end of period		(3,401)	(2,720)

Consolidated Financial Statements Summary of Significant Accounting Policies

Basis of Preparation

Optare plc is a company incorporated and domiciled in the UK.

The group changed its financial period end from the 31st December 2011 to 31st March 2012, to align with its new parent company.

The financial statements have been prepared on a historical cost basis. The historical financial statements consolidate those of Optare plc and its subsidiaries.

The historical financial statements have been prepared in accordance with International Financial Reporting Standards and IFRIC interpretations issued by the International Accounting Standards Board (IASB) and adopted by the European Union ("Endorsed IFRS") and with those parts of the Companies Act 2006 applicable to companies preparing their accounts under Endorsed IFRS.

Going Concern

The financial statements have been prepared on the going concern basis, which assumes that the Group will continue to be able to meet its liabilities as they fall due for the foreseeable future. The Group's banking facilities of £12.0m were renegotiated in December 2011, are guaranteed by Ashok Leyland Limited, are annually renewable, and fall due for renewal in January 2013. The directors are confident that the bank facilities will be renewed. There are no fixed or floating charges on the assets of the Company following the full repayment of facilities provided by the Company's previous bankers. The Group also has a £3.2m short term loan facility from Ashok as at 31st March 2012, which whilst it has a duration of up to two years, is technically repayable on 30 days notice if requested by the lender. The Group is additionally in advanced discussions with a second bank to provide additional loan finance of £1.8m and expect this facility to be in place in July 2012.

The Group has prepared trading forecasts through to March 2015 which include detailed cash flow calculations. The forecasts are based on detailed assumptions as to sales performance, variable and fixed costs. The forecasts reflect the move to a single site, the strength of the current order book and prospects, together with the continued emphasis on launching new products from within its development portfolio. This includes an increased level of exports, both fully built and CKD, and continued sales of Green Bus vehicles – both electric vehicles and hybrids.

The forecast assumes a gradual increase in the level of savings in material costs over the forecast period, achieved both through the Company's own efforts and through joint initiatives with Ashok. Improvement in labour productivity is factored in, recognising what has been achieved so far in 2012 and from further efficiency gains from the new modern assembly plant as well as redesigns of the buses for easier manufacturing. Tax losses at current corporation tax rates equivalent to approximately £9.3m will be useable when the Group achieves profitability, so no tax charge is foreseen within the forecast period.

There is inherent uncertainty in any forecast. In assessing such forecasts the Directors have considered the impact of such uncertainties, including the risks involved in managing increases in output volumes in a new plant, the financial strength of customers, any lack of visibility regarding sales beyond the current order book, the ability of suppliers to meet demand, the achievability of material and labour savings and the possibility that the external economic environment might worsen. The Directors feel that a reasonably conservative approach has been taken in the forecast.

Against these uncertainties, there are upside opportunities which are not reflected in the forecast but which would offset or mitigate the impact of downside risks which might occur. These include achieving the internally targeted higher level of a) material savings than included in the forecast, arising from joint initiatives with Ashok, and b) productivity savings. Further sales opportunities exist in Europe, Southern Africa, the Middle East and Asia in excess of the forecast volumes, both as a standalone business and in conjunction with Ashok.

The Directors are confident that the assumptions underlying their forecast are reasonable and that the Group will be able to operate within its current funding limits and those currently being arranged with support from Ashok. Ashok have confirmed that they will defer £1.8 million of loan repayment for a period of three months from the date of approval of the financial statements to provide additional headroom.

On the above basis the Board believes that it is appropriate to prepare the financial statements on the going concern basis. The financial statements do not include any adjustment to the value of the balance sheet assets or provisions for further liabilities, which would result should the going concern concept not be valid.

Basis of consolidation

Subsidiaries are entities controlled by Optare plc. Control exists when Optare plc has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that are currently exercisable or convertible are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Inter-company transactions, balances and unrealised gains on transactions between Group companies are eliminated.

New IFRS and amendments to IAS and Interpretations not applied

International Financial Reporting Standards effective for accounting periods starting on or after

IFRS 7	**Financial Instruments Disclosures**	**1 January 2013**
IFRS 9	**Financial Instruments**	**1 January 2015**

The application of these standards and interpretations are not anticipated to have a material effect on Optare plc's financial statements.

The following principal accounting policies have been applied consistently in the preparation of the financial statements:

Revenue

The Group's revenue arises from the sale of vehicles and parts and the provision of repairs and is stated at the invoiced amount net of VAT. Revenue is recognised upon the transfer of all risks and rewards in relation to the Group's products. For the sale of vehicles revenue is recognised on completion, for parts on despatch of the goods and for repairs it is recognised on completion of the relevant repair.

Foreign Currency

Transactions entered into in a currency other than the currency of the primary economic environment (the "functional currency") are recorded at the rates ruling when the transactions occur. Foreign currency monetary assets and liabilities are translated at the rates ruling at the reporting date. Exchange differences arising on the retranslation of unsettled monetary assets and liabilities are recognised immediately in the income statement.

Functional And Presentation Currency

The functional and presentation currency for Optare plc is sterling.

Goodwill

Goodwill, being the difference between the fair value of the assets acquired and the fair value of the consideration paid, arising on business combinations is capitalised as an intangible asset with any impairment in carrying value being charged to the income statement. The asset is reviewed for impairment at least annually.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units that are expected to benefit from the business combination in which the goodwill arose.

Consolidated Financial Statements Summary of Significant Accounting Policies (continued)

Intangible Assets

Externally acquired intangible assets are initially recognised at cost and subsequently amortised over their useful economic lives.

Intangible assets are recognised on business combinations if they are identifiable and their fair value can be reliably measured. The amounts ascribed to such intangibles are arrived at by using appropriate valuation techniques.

The significant intangibles recognised by the Group, their useful economic lives and the methods used to determine the cost of intangibles acquired in a business combination are as follows:

1 **Acquired Vehicle Design**
Vehicle design acquired is amortised on a straight line basis up to fifteen years.

2 **Internal Vehicle Design**
Vehicle designs are valued at the estimated cost of generating vehicle designs including internal and external engineering and testing costs. The amortisation period and charge is the anticipated useful economic life of the design up to 20 years. Amortisation is charged over the life of the design apportioned on the number of actual and projected vehicles of that design during its life or that will have that technology incorporated on vehicles over the life of the technology asset.

3 **Customer Relationships**
Customer relationships are valued using the multi-period excess earnings model. The customer relationships are amortised over ten years using a straight line basis.

Research and Development

No research activities have been undertaken within the period. If any are undertaken then research activities are recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from development is recognised only if all of the following conditions are met:

- an asset is created that can be identified
- it is probable that the asset created will generate future economic benefits;
- the development cost of the asset can be measured reliably;
- the product or process is technically and commercially feasible; and
- sufficient resources are available to complete the development and to either sell or use the asset.

Where no internally-generated intangible asset can be recognised, development expenditure is recognised as an expense in the period in which it is incurred. Internally-generated intangible assets are amortised over the number of actual and projected vehicles over their useful lives.

Intangible assets amortisation charges are included as a separate line item in the income statement.

Retirement Benefits

The group operates a number of contributory defined contribution plans. The costs of these plans are charged to the income statement as they fall due.

Impairment of non-financial assets

Impairment tests on goodwill and other intangible assets with indefinite useful economic lives are undertaken annually. Other non-financial assets including tangible fixed assets are subject to impairment tests whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. Where the carrying value of an asset exceeds its recoverable amount the asset is written down accordingly.

Where it is not possible to estimate the recoverable amount of an individual asset, the impairment test is carried out on the asset's cash-generating unit (i.e. the lowest group of assets in which the asset belongs for which there are separately identifiable cash flows).

Impairment charges are included as a separate line item in the income statement, except to the extent they reverse gains previously recognised directly in equity.

Financial Assets

Loans and receivables
These assets are non-derivative financial assets with fixed or determinable payments that are not quoted on an active market. They arise principally through the provision of goods and services to customers, but also incorporate other types of contractual monetary asset. They are recorded at fair value, subsequently measured at amortised cost less any provision for impairment.

Cash and Cash Equivalents
Cash and cash equivalents comprise cash on hand less bank overdrafts.

Bank Borrowings
Interest-bearing bank loans and overdrafts are recorded initially at their fair value, net of direct transaction costs. Such instruments are subsequently carried at their amortised cost and finance charges, including premiums payable on settlement or redemption, are recognised in the income statement over the term of the instrument using an effective rate of interest.

Trade and Other Payables
Other financial liabilities comprise trade payables and other short-term monetary liabilities, which are recorded at fair value then measured at amortised cost.

Retirement Benefits: Defined Contribution Schemes
Contributions to defined contribution pension schemes are charged to the income statement in the period to which they relate. The Group has no further payment obligations once the contributions have been paid. No defined benefits schemes exist within the Group.

Leased Assets
Where substantially all of the risks and rewards incidental to ownership of a leased asset have been transferred to the Group (a "finance lease"), the asset is treated as if it had been purchased outright.

The amount initially recognised as an asset is the present value of the minimum lease payments payable over the term of the lease. The corresponding lease commitment is shown as a liability. Lease payments are analysed between capital and interest. The interest element is charged to the income statement over the period of the lease and is calculated so that it represents a constant proportion of the lease liability. The capital element reduces the balance owed to the lessor.

Where substantially all of the risks and rewards incidental to ownership are retained by the lessor (an "operating lease"), the total rentals payable under the lease are charged to the income statement on a straight-line basis over the lease term.

Deferred Taxation

Deferred tax assets and liabilities are recognised where the carrying amount of an asset or liability in the balance sheet differs to its tax base, except for differences arising on:

- the initial recognition of goodwill;
- goodwill for which amortisation is not tax deductible;
- initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction affects neither accounting nor taxable profit or loss.

Recognition of deferred tax assets is restricted to those instances where it is probable that taxable profit will be available against which the difference can be utilised.

The amount of the asset or liability is determined using tax rates that have been enacted or substantively enacted by the reporting date and are expected to apply when the deferred tax liabilities/ (assets) are settled/ (recovered).

Deferred tax assets and liabilities are offset when the Group has a legally enforceable right to offset current tax assets and liabilities and the deferred tax assets and liabilities relate to taxes levied by the same tax authority. No deferred tax assets are recognised in the balance sheet as of the date of these accounts.

Consolidated Financial Statements Summary of Significant Accounting Policies (continued)

Property, Plant and Equipment

Items of property, plant and equipment are initially recognised at cost. Depreciation is provided on all items of property, plant and equipment so as to write off the carrying value of items over their expected useful economic lives. It is applied at the following rates:

Leasehold property improvements	10% and the life of the lease.
Plant and machinery and motor vehicles	10% to 25% per annum straight line
Fixtures, fittings and equipment	10% to 33% per annum straight line
Production Tooling	15% to 20% per annum straight line

Exceptional Items

Exceptional items are costs and income that should not be expected to recur in the normal course of business.

Demonstration fleet

Vehicles manufactured and held principally for customer demonstrations which are intended at the date of entering service to remain in such use for twelve months or more are capitalised at cost as part of our demonstration fleet. When no longer required as a sales aid they are transferred into stock at net book value. When sold the proceeds are treated as revenue. Demonstration fleet vehicles are depreciated at 17% per annum straight line.

Inventories

Inventories are initially recognised at cost, and subsequently at the lower of cost and net realisable value. Cost comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Work in progress and finished goods include labour and attributable overheads.

Provisions

Provisions are recognised for liabilities of uncertain timing or amount that have arisen as a result of past transactions and are discounted at a pre-tax rate reflecting current market assessments of the time value of money and the risks specific to the liability.

Share-based payment transactions

The Group issues equity-settled share-based payment transactions to certain employees. Equity-settled share-based payment transactions are measured at fair value at the date of grant. The fair value determined at the grant date of equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of the number of instruments that will eventually vest with a corresponding adjustment to equity. Fair value is measured by use of a Black Scholes model. The expected life used in the model has been adjusted, based on management's best estimate, for the effect of non-transferability, exercise restrictions, and behavioural considerations.

Non vesting and market vesting conditions are taken into account when estimating the fair value of the option at grant date. Non-market vesting conditions are taken into account by adjusting the number of options expected to vest at each reporting date.

Cancelled options are accounted for as an acceleration of vesting. The unrecognised grant date fair value is recognised in profit or loss in the period that the options are cancelled.

Critical Judgements And Estimates

The preparation of historical financial information in conformity with Endorsed IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. The key sources of estimation that have a significant impact on the carrying value of assets and liabilities are discussed below:

1 **Provision For Warranty Claims**
Management has estimated the cost of potential warranty claims arising on acquisition of the various businesses, and on new bus sales. This requires an element of judgement about the likely level of claims and their financial impact upon the business. The factors affecting the level of warranty cost are: the number of buses sold; the length in periods and the breadth in cover of the terms of the warranty given with the bus; the ability of the Company to obtain suitable back-to-back warranties from its suppliers; the efficacy of the quality processes applied in designing and building the buses; the strictness with which warranty claims from customers are vetted, and the extent to which goodwill claims are allowed. Judgements on the level of warranty provision that is required are based on the number of buses in service and their remaining warranty life, with the key estimation being the likely warranty cost per bus. This is based on historical data, with estimates where necessary for new vehicle designs. If the assumption for likely warranty cost per vehicle was adjusted by 10% this would equate to an under or over provision of £180,000.

2 **Impairment Reviews**
Management perform impairment reviews annually on goodwill, other intangible assets and tangible assets. These involve comparing the estimated future cashflows of the business over the next ten years, discounted at the weighted average cost of capital, to the carrying value of the Group's tangible and intangible fixed assets. Where the net present value of the forecast cashflows exceeds the carrying value, no impairment is required. As required by IFRS, no assumption is made that profits growth can exceed national, market or product averages without justification.

Clearly, there is an element of judgement required in assessing the potential future benefits to be derived from these assets. When completing the impairment review the Directors considered the same factors as outlined for the Going Concern review, of which the forecast improvement in vehicle production output and gross margin improvement over the next two years are the most important.

Financial Instruments – Risk Management

The Company is exposed through its operations to one or more of the following financial risks:

- Liquidity risk
- Interest rate risk
- Foreign currency risk
- Credit risk

Policy for managing these risks is set by the Board following recommendations from the Chief Financial Officer. The policy for each of the above risks is described in more detail below.

Liquidity Risk

The liquidity risk of the Company is managed centrally. Liquidity risk arises from the Company's management of working capital and the finance charges and principal payments on debt financing. It is the risk that the Company will have difficulty in meeting its financial obligations as they fall due. The Company currently has sufficient liquid resources to meet the liquidity requirements of the business and its future plans. The Board monitors the cash flow forecasts on a regular basis through detailed short-term cashflow forecasts over the following three months.

Interest Rate Risk

Management has a policy to obtain long term debt at fixed rates and short term debt at flexible rates. It also benefits from access to Ashok Treasury resources and skills to give strategic guidance.

Although the Board accepts that this policy neither protects the Company entirely from the risk of paying rates in excess of current market rates nor eliminates fully cash flow risk associated with interest payments, it considers that it achieves an appropriate balance of exposure to these risks. A one percentage point change in interest rates would result in a change in retained profit of approximately £120,000.

Foreign Currency Risk

Management's primary foreign currency risk arises from suppliers who invoice in Euros, US dollars and Swiss Francs. The Company monitors exchange rate movements and considers the utilisation of forward contracts to manage this risk. The Company bulk purchases of stock enable management of the overall pricing of materials, and monitoring of exchange rates ensures that the Company makes payments against trade payables at an appropriate time to reduce the effect of exchange rate fluctuations. Expected foreign currency receipts from export sales are taken into consideration in assessing the net foreign currency exposure.

Consolidated Financial Statements Summary of Significant Accounting Policies (continued)

Credit Risk

Credit risk is managed on a Group basis. Optare plc's credit risk is primarily derived from its trade receivables. This risk is managed daily by the Company's credit control function that monitor payment trends, and ensure that outstanding debts are identified when these become overdue and appropriate action is taken to recover the amounts outstanding.

Optare plc's customers are also the main major bus operators who have significant resources and facilities in place to fund their vehicle acquisitions thus limiting Optare plc's exposure to credit risk. Credit checks are also made for new customers and appropriate credit limits are set from this information. Orders for new bus sales are rarely accepted without proof of funding in place. Credit limits may only be exceeded with the express authorisation of the Directors.

Capital

Optare plc's main objective when managing capital is to protect returns to shareholders by ensuring the Group has sufficient liquidity in the business and will trade profitably in the foreseeable future. The Group manages its capital with regard to the risks inherent in the business and the sector within which it operates by monitoring its gearing. The Group also aims to maximise its capital structure of debt and equity so as to control its cost of capital.

The Group considers its capital to include share capital, share premium, merger reserve, retained earnings, share based earnings reserve and net debt.

Sensitivity Analysis

Whilst Optare plc takes steps to minimise its exposure to cash-flow interest rate risk and foreign exchange risk as described above, changes in interest and foreign exchange rates may have an impact on profit and cash flow. Optare plc's foreign exchange risk is dependent on the movement in the Euro, US dollar and Swiss franc to sterling exchange rate. Any significant foreign currency denominated assets or liabilities at the period end are translated using exchange rates applicable at the time with any exchange rate difference being realised in the income statement. It is estimated that a one percentage point increase/decrease in interest rates would increase/reduce losses and reduce/increase equity by approximately £120,000, and that a five per cent weakening/strengthening of sterling against the euro would increase/reduce losses and reduce/increase equity by approximately £250,000.

Notes To The Consolidated Financial Statements

Period ended 31 March 2012

1. Business And Geographical Segments and Customer Concentration

	Period ended 31 Mar 2012 £'000	Year ended 31 Dec 2010 £'000
Geographical analysis of revenue is as follows:		
UK	70,131	47,842
Other EU	0	3,823
Non-EU	1,804	606
Total revenue	71,935	52,271

The Directors consider that the Company has only one business segment being bus manufacture, other income is ancillary and does not constitute a segment in its own right.

During the period two customers accounted for more than 10% of revenue. One of the customers is a large UK bus operating group and comprised of 13.5% and the other is a local authority operator and represented 16.3% of revenue.

2. Exceptional Items

Exceptional items are costs and income that are not expected to recur in the normal course of business.	Period ended 31 Mar 2012 £'000	Year ended 31 Dec 2010 £'000
Closure of Leeds site and metal fabrication unit	1,553	200
Redundancy costs	606	1,192
Double Decker design phased out	443	-
Penal contracts	419	-
Supply chain disruption	409	-
Sherburn start-up costs	200	-
Cumbernauld Lease	193	38
Cost of Sales	**3,823**	**1,430**
Redundancy costs	401	22
Relocation costs	154	-
Blackburn assets write down	150	-
Blackburn site closure costs	49	-
Rotherham sale / impairment	22	400
Fund raising expenses	-	311
Administration	**776**	**733**

The Group embarked on a three year turnaround program in mid-2009. Major strategic actions have had to be taken to ready the business for expansion, at a time when the market itself has been in a prolonged down turn. The Directors consider the costs incurred to be an overall cost of the ongoing turnaround effort.

Closure of sites: Following significant downsizing of the workforce in 2009 and 2010, the business has over the last three years now concentrated all production in the new Sherburn in Elmet site, replacing three outdated sites in Leeds, Blackburn and Rotherham. Significant costs were incurred to close and clear the three sites, revalue the carrying value of stocks and upgrade the skills of the workforce for the new Sherburn site. Additionally, further redundancy costs were incurred in Blackburn on closure of that site and also in Leeds for those individuals who were not able to make the transition to the new methods in Sherburn.

As part of the site consolidation, the Group outsourced the in-house metal, bracket and structure fabrication unit at the Leeds site in the second half of 2011. Additional labour costs were incurred as the site was cleared and the outsourcing project completed and obsolete materials relating to the fabrication unit were scrapped together amounting to a total of £670,000. In addition in closing the former Leeds site and relocating to Sherburn, an amount of £425,000 of obsolete and large item material were scrapped. The Group also had contractual obligation to pay for both the old Leeds site and the new Sherburn site within the period but with production only on one of the sites at any one time. Duplicate site costs whilst moving from Leeds to Sherburn of £458,000 were incurred, representing the additional costs of rent, rates and utilities for Sherburn from May to October and for Leeds in November and December.

Redundancy costs of £606,000 and £401,000 relate to the closure of Leeds and Blackburn manufacturing sites and Blackburn office staff.

In the period, the double decker product produced at Blackburn has been phased out. Obsolete components stocks of this model that will not be used in the new Integrated Double Decker have been scrapped or provided for amounting to £443,000.

Certain significant contracts were adversely affected by a force majeure event, and had a penal clause for late penalty payments. The dispute is still ongoing, but the Board has taken a cautious view and allowed for the full costs as each bus is delivered, amounting to £419,000.

Notes To The Consolidated Financial Statements (continued)

Period ended 31 March 2012

Supply chain disruption. A major component from a supplier caused significant production disruption in 2011. Line disruption and the knock-on costs of the effect on customers' vehicles amounted to £409,000.

Exceptional start-up and move costs were incurred in relocating to Sherburn, principally £208,000 of line start-up and office move disruption in September to December 2011, the one-off provision of £50,000 of additional personal protection equipment for the production line and the additional recruitment costs for new staff in Sherburn staff amounted to £96,000.

Following the decision to close the Blackburn site a £150,000 provision has been established for the write down of the remaining fixed assets, and a further £49,000 has been incurred made for the costs of managing the site closure.

£193,000 has been provided for the remaining cost of the lease at the former Cumbernauld service centre, until the lease expires in 2015. This is classed as other provision in the accounts.

The fixed asset impairment in 2010 was an impairment charge against the Rotherham site, part of which was sold in 2011 and the remainder was held as an asset for sale at the period end. It has subsequently been sold. Associated disposal costs in 2011 of the first part of the Rotherham site amount to £22,000.

3. Loss From Operations

Loss from operations has been arrived at after charging/(crediting):	**Period ended 31 Mar 2012 £'000**	**Year ended 31 Dec 2010 £'000**
Net foreign exchange (gains)	(77)	(184)
Cost of inventories recognised in cost of sales	50,835	31,866
Write-down inventories recognised as an expense	1,049	100
Amounts charged in respect of share options	171	-
Impairment of assets		
– owned assets	150	
Depreciation		
– owned assets	766	1,206
– leased assets	31	23
Profit on disposal of fixed assets	54	12
Amortisation of Intangible Assets		
-Acquired	150	120
-Internally generated	272	170
Rental under operating leases	1,318	778
Staff costs	17,432	14,021
Amounts payable to Baker Tilly UK Audit LLP and their associates in respect of both audit and non-audit services.		
Audit services		
– statutory audit including audit of subsidiary companies	95	68
Non Audit services:		
– Services relating to Corporate Finance	-	24
– Services relating to Tax Services - Compliance	16	13
	111	105

4. Staff Costs

The average monthly number of persons (including Directors) employed by the Group's principal divisions was as follows	**Period ended 31 Mar 2012 No.**	**Year ended 31 Dec 2010 No.**
Production	363	368
Head office and administration	189	179
	552	547

4. Staff Costs (continued)

The aggregate remuneration for the above persons comprised:	Period ended 31 Mar 2012 £'000	Year ended 31 Dec 2010 £'000
Wages and salaries	17,304	14,145
Social security costs	1,862	1,644
Other pension costs	327	287
	19,493	16,076

The compensation of the key management personnel on the Operating Committee (note 27) was:	£'000	£'000
Short term employee benefits	978	602
Pension and other post-employment costs	54	32
Share based payments	171	27
	1,203	661

Details of Directors' fees and salaries, bonuses, pensions, benefits in kind and other benefit schemes are given in the Directors' Remuneration Report on pages 14 to 15.

5. Finance Costs and Income

	Period ended 31 Mar 2012 £'000	Year ended 31 Dec 2010 £'000
Interest on bank overdrafts	729	387
Interest on loans from Ashok Leyland Ltd	116	4
Interest on obligations under finance leases	8	2
Total borrowing costs	853	393
Interest receivable	222	93

6. Taxation

	Period ended 31 Mar 2012 £'000	Year ended 31 Dec 2010 £'000
Adjustments in respect of prior periods	-	(73)
Total current tax	-	(73)
Tax attributable to the Company and its subsidiaries	-	(73)

Domestic income tax is calculated at 28 per cent in 2010 and 26 per cent of the estimated assessable profit for the period in 2011/12.

Notes To The Consolidated Financial Statements (continued)

Period ended 31 March 2012

6. Taxation (continued)

The charge for the period can be reconciled to the loss per the income statement as follows:	**Period ended 31 Mar 2012 £'000**	**Year ended 31 Dec 2010 £'000**
Loss on ordinary activities before tax	(13,392)	(6,513)
Tax at the domestic income tax rate	(3,482)	(1,824)
Tax effect of expenses that are not deductible in determining taxable profit	298	256
Tax losses not utilised	3,184	1,495
Tax credit for the period	0	(73)

7. Dividends

The Directors do not propose the payment of a dividend in respect of the current period (2010 nil)

8. Loss Per Share

The calculation of the basic and diluted loss per share is based on the following data:	**Period ended 31 Mar 2012 £'000**	**Year ended 31 Dec 2010 £'000**
Loss:		
Loss for the purposes of basic loss per share (net loss for the period attributable to equity holders of the parent)	(13,392)	(6,440)
	Number	**Number**
Weighted average number of ordinary share for the purposes of basic earnings per share	967,052,981	307,965,208
Basic and fully diluted loss per share	(1.4)p	(2.1)p

Excluding Exceptional Items	**Period ended 31 Mar 2012 £'000**	**Year ended 31 Dec 2010 £'000**
Net loss for the period attributable to equity holders of the parent	(13,392)	(6,440)
Adjustment to exclude exceptional costs	4,599	2,163
Loss from continuing operations for the purposes of basic earnings per share	(8,793)	(4,277)
Basic and fully diluted loss per share	(0.9)p	(1.4)p

There are no dilutive potential ordinary shares in issue.

9. Subsidiaries

Name of subsidiary	Place of incorporation & operation	Proportion of ownership interest	Proportion of voting power held	Principal activity
Optare UK Ltd	UK	100%	100%	Manufacturer of passenger vehicles
Optare Group Ltd	UK	100%	100%	Manufacturer of passenger vehicles
Darwen LPD Ltd	UK	100%	100%	Dormant
Optare Aftersales Ltd	UK	100%	100%	Dormant
Jamesstan Investments Ltd	UK	100%	100%	Holding Company
Optare Holdings Ltd	UK	100%	100%	Holding Company
Optare (Leeds) Ltd	UK	100%	100%	Dormant
Autotec Vehicles Ltd	UK	100%	100%	Dormant
Autobus Classique Ltd	UK	100%	100%	Dormant
Optare PCV Ltd	UK	100%	100%	Dormant
Chalgrave Ltd	UK	100%	100%	Dormant
East Lancashire Busbuilders Ltd	UK	100%	100%	Dormant

10. Goodwill

Excluding Exceptional Items	Period ended 31 Mar 2012 £'000	Year ended 31 Dec 2010 £'000
Cost		
Balance at start of the year/period	8,700	8,700
At end of the year/period	8,700	8,700
Impairment:		
Balance at start of the year/period	126	126
At end of the year/period	126	126
Carrying amount at the end of the year/period	8,574	8,574

Goodwill arose on the 2008 purchase of Jamesstan Investments Limited and Darwen LPD Ltd. Goodwill arising on the acquisitions of Darwen LPD Ltd has been treated as fully impaired in the accounts following the disposal of part of the business in 2008.

The Directors consider there is only one cash generating unit (CGU).

The recoverable amount of the CGU has been determined by "value in use" calculations. The calculations used pre-tax cash flow projections over the next ten years based on current management forecasts to March 2015 and extrapolation for later periods.

The growth assumptions used in these forecast are, for the next twelve months, the same as those used in the forecasts referred to in the Basis of Preparation. Thereafter they reflect an assumption that sales volumes will increase to no more than the single shift capacity of the Sherburn in Elmet plant. It is management's view that there will in fact be market growth through 2012 to 2014 as the pressures on operators mount to update their fleets to comply with the Disability Discrimination Act, to address the increased average age of their buses following a period during 2009-2012 of low investment and through a desire to avoid the extra costs that will be incurred if they delay replacements until Euro 6 emissions regulations come into force.

Notes To The Consolidated Financial Statements (continued)

Period ended 31 March 2012

10. Goodwill (continued)

The key assumptions applied in the extrapolations were:

Growth rate (%)	2.0%
Discount rate	8.5%

Management determined the gross margin rate based on past performance, existing levels of margin improvement and planned margin enhancements.

The discount rate used is the weighted average cost of capital from Ashok.

A period of ten years has been used in the impairment review taking a conservative view of the relatively lengthy product life cycle of bus designs, which can extend as long as 20 years.

Sensitivity analyses have been performed which assume that sales for the remainder of 2012 to March 2015 are at a lower level than assumed in the base case forecast and that margin improvements may not happen. A sales decline of 30% or an 8% material cost increase over projected levels could potentially result in a requirement for impairment.

11. Other Intangible Assets

	Vehicle related intangible assets £'000	Customer related intangible assets £'000	Total £'000
At 1 January 2010	3,669	608	4,277
Additions – internally generated	3,209	-	3,209
At 31 December 2010	6,878	608	7,486
Additions – internally generated	1,582	-	1,582
At 31 March 2012	8,460	608	9,068
Amortisation			
At 1 January 2010	170	154	324
Charge for the year	237	53	290
At 31 December 2010	407	207	614
Charge for the period	356	66	422
At 31 March 2012	763	273	1,036
Carrying amount			
At 31 March 2012	7,697	335	8,032
At 31 December 2010	6,471	401	6,872
At 1 January 2010	3,499	454	3,953

Of the vehicle related intangible assets' carrying amount at the period-end, £6,407,000 (2010: £5,015,000) related to internally generated assets and £1,290,000 (2010: £1,456,000) related to assets recognised on acquisition.

The vehicle related intangible assets include internally generated new product developments in the period which includes the Versa Hybrid School Bus, Tempo SR and new product designs, such as the Integrated Double Deck, yet to be launched to market. Also included are vehicle designs included in the acquisition of Jamesstan Investments Ltd.

12. Property, Plant and Equipment

	LaLeasehold & building £'000	Production tooling £'000	Plant & equipment & motor vehicles* £'000	Fixtures & fittings £'000	Total £'000
Cost					
As at 1 January 2010	-	1,528	3,166	483	5,177
Additions		58	17		75
Disposals	-		(31)		(31)
Transferred			(842)		(842)
As at 31 December 2010	-	1,586	2,310	483	4,379
Additions	1,565	142	481		2,188
Disposals			(528)	(56)	(584)
Transferred			(373)		(373)
As at 31 March 2012	1,565	1,728	1,890	427	5,610
Depreciation and Impairments					
As at 1 January 2010	-	508	858	131	1,497
Charge for the period		414	383	31	828
Disposals			(19)		(19)
Transferred			(239)		(239)
As at 31 December 2010	-	922	983	162	2,067
Charge for the period	45	382	342	28	797
Impairment losses		28	86	36	150
Disposals			(474)	(56)	(530)
Transferred					
As at 31 March 2012	45	1,332	937	170	2,484
Net book value					
As at 31 March 2012	1,520	396	953	257	3,126
As at 31 December 2010	-	664	1,327	321	2,312
As at 1 January 2010	-	1,020	2,308	352	3,680

The group took an impairment loss for £150,000 for the remaining assets on its Blackburn factory see note 2.

* Customer demonstration vehicles that are intended to be used in this capacity for twelve months or more are capitalised at cost as part of our demonstration fleet. When no longer required as a sales aid they are transferred to stock at net book value. Customer demonstration stock is £nil (2010: £373,000).

The net book value of assets held under finance leases and hire purchase agreements is £192,000 (2010: £90,000).

Notes To The Consolidated Financial Statements (continued)

Period ended 31 March 2012

13. Inventories

	31 Mar 2012 £'000	31 Dec 2010 £'000
Raw materials and consumables	4,969	3,975
Work in progress	6,148	3,588
Finished Goods	158	179
Total	11,275	7,742

14. Trade and Other Receivables

	31 Mar 2012 £'000	31 Dec 2010 £'000
Trade receivables	6,493	4,256
Allowance for estimated irrecoverable amounts	(105)	(422)
Net trade receivables	6,388	3,834
Other receivables and prepayments	1,755	940
Total	8,143	4,774

Trade receivables past due but not impaired at the period end totalled £810,000 (2010 £827,000). The Directors consider that the carrying amount of trade and other receivables approximates to their fair value.

The Group's credit risk relates primarily to its trade receivables, the debtor days as at the 31 March 2012 were 41 (2010: 33).

15. Assets held for sale

	31 Mar 2012 £'000	31 Dec 2010 £'000
Assets held for sale	1,000	2,000

The Company's freehold land and buildings in Rotherham have been classified as non-current assets held for sale as management were committed to a plan to sell them at the reporting date and they were being actively marketed at a price which is considered to be reasonable given the age and condition of the assets. Since the period end an offer has been accepted for the remaining part of the Rotherham site and the sale was completed on June 28 2012 for £1 million gross of approximately £50,000 costs.

16. Bank loans and overdrafts

	31 Mar 2012 £'000	31 Dec 2010 £'000
Bank overdrafts	3,989	2,720
Bank loans	8,000	3,395
Short term loan	3,218	1,224
	15,207	7,339

The borrowings are repayable as follows:

	31 Mar 2012 £'000	31 Dec 2010 £'000
On demand or within one year	15,207	5,427
In the second year	-	1,229
In the third to fifth year (inclusive)	-	200
After 5 years	-	483
In more than one year	-	1,912
	15,207	7,339

Analysis of borrowings by currency

	31 Mar 2012 £'000	31 Dec 2010 £'000
Euro – overdraft/(cash balance)	(367)	179
US Dollar – cash balance	0	(7)
Sterling – overdraft	3,899	2,331
Sterling – loans	11,677	4,619
Swiss Francs – overdraft	(2)	217
	15,207	7,339

The Company had a short term loan in place at the 31st March 2012 with Ashok Leyland Ltd. See note 27.

The fair value of borrowings is not significantly different to carrying value. The bank loans borrowings are at a floating rate of 2.5% over Bank of England base rate, the bank overdraft is at a floating rate of 2.6% over the Bank of England base rate. The short term loan from the parent company is at a rate of 8% over Bank of England base rate.

17. Trade And Other Payables

	31 Mar 2012 £'000	31 Dec 2010 £'000
Trade payables	11,572	13,076
Social security and other taxes	1,346	1,264
Accruals and deferred income	7,249	2,691
	20,167	17,031

Creditor days as at 31 March 2012 were 73 days (2010: 114 days). The Directors consider that the carrying amount of trade payables approximates to their fair value. Of the trade creditors outstanding at the period-end those that were denominated in foreign currencies was £1,317,064 (2010: £351,000), principally in Euros.

Notes To The Consolidated Financial Statements (continued)
Period ended 31 March 2012

18. Provisions

	Warranty Provision £'000	Onerous Contracts £'000	Other Provisions £'000	Total Provisions £'000
At 1 January 2011	2,821	24		2,845
Additional provision	1,826		184	2,010
Utilisation of provision	(2,373)	(24)		(2,397)
At 31 March 2012	2,274	-	184	2,458
Under One Year Provision	1,367	-	38	1,405
Over One Year Provision	907	-	146	1,053
At 31 March 2012	2,274	-	184	2,458

The warranty provision represents management's best estimate of the Group's liability under warranties granted on passenger vehicles manufactured, based on past experience for defective products.

The Other provisions relates to the costs of a leased premises that is un-used that expires in 2015.

19. Obligations Under Finance Leases

	Minimum lease payments	Present value of lease payments	Minimum lease payments	Present value of lease payments
	31 Mar 2012	31 Mar 2012	31 Dec 2010	31 Dec 2010
	£'000	£'000	£'000	£'000
Amounts payable under finance leases:				
- within one year	49	47	23	18
- two to five years	245	227	24	17
	294	274	47	35

It is the Group's policy to lease certain equipment under finance leases. Obligations under finance leases are secured on the assets to which they relate.

The average rate of interest charged on the finance leases outstanding was 12% in the period.

20. Deferred Tax

At the reporting date, the Group has unused tax losses of £38,763,000 (2010: £25,371,000) available for offset against future profits. A deferred tax asset of £9,303,000 at tax rate of 24% (2010: £7,104,000 at 28%) has not been recognised in respect of these losses due to the unpredictability of future profit streams.

21. Share Capital – Group

	Ordinary shares of 1p each No.	Ordinary shares of 0.1p each No.	Deferred shares of 0.9p each No.	£
As at 1 January 2011	382,145,493			3,821,455
Shares issued on **7 March 2011**	370,000,000			3,700,000
As at 31 December 2011	752,145,493			7,521,455
Split of shares into ordinary shares of 0.1p and deferred shares of 0.9p on 9 January 2012	-752,145,493	752,145,493	752,145,493	7,521,455
Shares issued 9 January 2012				
Shares issued		1,483,146,334		1,483,146
As at 31 March 2012	-	2,235,291,827	752,145,493	9,004,601

The Company has two classes of share which carry no right of fixed income.

The premium net of related charges on the issue of shares has been credited to the share premium account.

On 7 March 2011, 370,000,000 new shares were issued at a price of 2p via a placing. On 9 January 2012, the 1p ordinary shares were split into 1 new ordinary share of 0.1p nominal value and 1 new deferred share of 0.9p nominal value. Following this split a further 1,483,146,334 ordinary shares of 0.1 p were issued and fully paid via a placing to raise £4,000,000, at a price of 0.27p per share on the 9 January 2012.

A summary of the rights which attach to the Deferred Shares, which render them effectively worthless, is as follows:

- They do not entitle holders to receive any dividend or other distribution or to receive notice or, speak or vote at general meetings of the Company;
- On a return of assets on a winding up, they will only entitle the holder to the amounts paid up on such shares after the repayment of £10 million per New Ordinary Share;
- They are not freely transferable;
- The creation and issue of further shares which rank equally or in priority to the Deferred Shares or the passing of a resolution of the Company to cancel the Deferred Shares or to effect a reduction of capital shall not constitute a modification or abrogation of their rights; and
- The Company shall have the right at any time to purchase all of the Deferred Shares in issue for an aggregate consideration of £1.00.

The number of authorised ordinary shares is 2,235,291,827. The number of authorised deferred shares is 752,145,493

22. Retirement Benefits

Defined contribution plans

The Group operates defined contribution retirement benefit plans for employees. The assets of the schemes are held separately from those of the Group in funds under the control of trustees. Where there are employees who leave the scheme prior to vesting fully in the contributions, the contributions payable by the Group are reduced by the amount of forfeited contributions.

The total cost charged to income of £327,000 (2010: £266,000) represents contributions payable to these schemes by the Group at rates specified in the rules of the schemes. As at 31 March 2012, contributions of £89,000 (2010: £35,000) due in respect of the current reporting period had not been paid over to the schemes.

Notes To The Consolidated Financial Statements (continued)

Period ended 31 March 2012

23. Share Based Payments

Equity-settled share option plan

The Group plan provides for a grant price equal to the average quoted market price of the Group shares in the five days prior to the date of grant. Option vest immediately on the date of issue, if options remain unexercised after a period of 10 years from the date of grant, the options expire. Furthermore, options may be forfeited if the employee leaves the Group before the options vest, depending on the circumstances.

	2012		2010	
	Options	**Weighted average exercise price**	**Options**	**Weighted average exercise price**
	No. '000	Pence	No.'000	Pence
Outstanding at 1 January	2,250	3.45	2,250	3.45
Granted during the period	12,000	1.67	0	0
Outstanding at 31 March 2012 (31 December 2010)	14,250	1.95	2,250	3.45
Exercisable at 31 March 2012 (31 December 2010)	14,250	1.95	2,250	3.45

No options were exercised during the period. The options outstanding at 31 March 2012 had an exercise price between 1.0p and 4.15p (2010: between 1.0p and 4.15p), and a weighted average remaining contractual life of 8.7 years (2010: 8.5 years).

The fair value of options granted in the period was £171,000 (2010: £nil). This was calculated using the Black-Scholes model and reflects the market price of the ordinary shares at the time of issue and a volatility of 95% using the prior three years share price. The nominal value of the options at issue was 1p.

24. Operating Lease Arrangements

The Group as a lessee:

Commitments under non-cancellable leases for:

	31 Mar 2012 £'000	**31 Dec 2010 £'000**
Buildings	9,521	773
Others	206	325
	9,727	1,098

The minimum lease payments under non-cancellable operating lease rentals are in aggregate as follows:

	31 Mar 2012 £'000	**31 Dec 2010 £'000**
Amounts due within one year	885	625
Amounts due between one and five years	2,589	473
Amounts due after more than five years	6,253	-
	9,727	1,098

Notes To The Consolidated Financial Statements (continued)

Period ended 31 March 2012

25. Net Cash From Operating Activities

Reconciliation of loss from operations to net cash used in operating activities:

	31 Mar 2012 £'000	31 Dec 2010 £'000
Operating activities:		
Loss before tax	(13,392)	(6,513)
Tax	-	73
Adjustments for:		
Share based payments	171	-
Depreciation	948	1,228
Amortisation of intangible assets	422	290
Net finance expense	631	300
(Profit)/ Loss on disposal of fixed assets	54	12
Operating cash-flows before movements in working capital	(11,166)	(4,610)
Changes in working capital:		
(Increase)/ decrease in inventories	(3,159)	37
Increase in trade and other receivables	(3,369)	(319)
Increase in trade and other payables	3,135	2,833
Decrease in provisions	(387)	(1,359)
Total decrease in working capital	(3,780)	1,192
Net cash absorbed in operating activities	(14,946)	(3,418)

26. Post Period End Events

Post balance sheet events are disclosed in the Directors' Report.

27. Related Party Transactions

Key management remuneration is considered to be board directors and members of the operating committee (OC). The transactions with key management are described in note 4.

Transactions between the Company and its subsidiaries, which are related parties to the Company, have been eliminated on consolidation.

Ashok had loan agreements in place at the period end with an outstanding amount of £3,200,000. The loans are interest bearing at 8% above the Bank of England base rate with interest accrued at the period end. The loans are unsecured and repayable within two years, but with 30 days notice if requested by the lender.

During the period the group has been charged £60,000 fee by Ashok Leyland Ltd in return for providing a guarantee for the group's borrowings of £12,000,000 with HSBC.

The major share holder Ashok Leyland Ltd is providing key employee resource to support the business. The cost of this expense that remains outstanding at the period end was £100,000.

28. Parent company and ultimate controlling party

The Directors consider Ashok Leyland Limited to be the Group's parent undertaking and Amas Holding SA a company incorporated in Luxembourg to be the Group's ultimate controlling party. Ashok exercises control of the two associated companies Ashley Holdings Ltd. and Ashley Investments Ltd., through its employees who sit on the associated companies' boards.

Company Balance Sheet

as at 31 March 2012

	Notes	31 Mar 2012 £'000	31 Dec 2010 £'000
Fixed Assets			
Tangible assets	30	-	2
Investments	29	54,018	23,794
		54,018	23,796
Current Assets			
Bank Deposits			5,526
Debtors due within one year	31	459	2,158
		459	7,684
Current Liabilities			
Creditors: amounts falling due within one year	32	28,847	15,412
Net Current/(Liabilities)		(28,388)	(7,728)
Net Assets		25,630	16,068
Capital and Reserves			
Share capital	33	9,005	3,821
Capital reserves	34	36,832	31,194
Share based payment reserve	35	198	27
Retained loss	36	(20,405)	(18,974)
Total Equity		25,630	16,068

The Company's Loss after tax for the period was £1,430,535 (2010: £1,102,000).

The financial statements on pages 42 to 45 were approved by the Board of Directors and authorised for issue on 28 June 2012 and are signed on its behalf by:

J Sumner
Director

Company Financial Statements Summary of Significant Accounting Policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the Company's financial statements.

Basis Of Preparation

The financial statements have been prepared in accordance with applicable accounting standards under UK GAAP and under the historical cost accounting rules.

The Directors have taken advantage of the exemption available under s.408 of the Companies Act 2006 and have not presented the income statement of the Company.

Under FRS 1 the Company is exempt from the requirement to prepare a cash flow statement.

Taxation

The charge for taxation is based on the profit for the period and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes. Deferred tax is recognised, without discounting, in respect of all timing differences between the treatment of certain items for taxation and accounting purposes which have arisen but not reversed by the balance sheet date, except as otherwise required by FRS 19.

Investments

Investments are carried at historical cost less provision for impairments in carrying value, loans to subsidiaries are treated as part of its net investment in subsidiaries. Impairments are calculated by reference to the expected recoverable amount.

Notes To The Company Financial Statements

for the period ended 31 March 2012

29. Investments

Details of investments held in the Company accounts are as follows:

	Share in Subsidiary undertakings £'000	Loans to Subsidiary undertakings £'000	Total £'000
At 1 January 2010	39,923	-	39,923
Addition	-	30,224	30,224
At 31 March 2012	39,923	30,224	70,147
Impairment			
At 1 January 2010	16,129	-	16,129
Charge for the period	-	-	-
At 31 March 2012	16,129	-	16,129
Carrying amount			
At 1 January 2010	23,794	-	23,794
At 31 March 2012	23,794	30,224	54,018

Details of the Company's subsidiaries at 31 March 2012 are shown in Note 9.

Directors have carried out an impairment review of the net investments in subsidiaries, using the same forecasts and assumptions used in the impairment review of the Goodwill included in note 10 of the consolidated financial statements. Based on this review the Directors have concluded that no further impairment is required.

30. Fixed Assets

	Fixtures & Fittings £'000	Total £'000
Cost:		
At 1 January 2011	16	16
Additions	-	-
At 31 March 2012	16	16
Depreciation:		
At 1 January 2011	14	14
Charged during period	2	2
At 31 March 2012	16	16
Net book value as at 31 March 2012	-	-
Net book value as at 31 December 2010	2	2

31. Debtors Due Within One Year

	31 Mar 2012 £'000	31 Dec 2010 £'000
Prepayments	259	304
Other debtors	200	-
Amounts due from subsidiary undertakings	-	1,854
Total	459	2,158

Other debtors refers to a bond paid in relation to the lease of the factory property.

32. Creditors: Amounts Falling Due Within One Year

	31 Mar 2012 £'000	31 Dec 2010 £'000
Overdraft	3,899	-
Bank loan	8,000	-
Loans from Parent undertaking	3,219	1,224
Trade creditors	308	595
Amounts payable to subsidiary undertakings	13,307	13,307
Social security and other taxes	44	32
Accruals and deferred income	70	254
	28,847	15,412

33. Share Capital

Details of the Company's share capital are disclosed in Note 21

34. Capital Reserves

	Share premium £'000	Merger reserve £'000	Total £'000
As at 1 January 2011	26,759	4,436	31,195
Issue of ordinary share capital (net of expenses)	6,219	-	6,219
Net expenses	(582)	-	(582)
As at 31 March 2012	32,396	4,436	36,832

35. Share based payment reserve

	31 Mar 2012 £'000	31 Dec 2010 £'000
As at start of period	27	27
Charge for period	171	-
At end of period	198	27

36. Retained Loss

	31 Mar 2012 £'000
As at start of period	(18,974)
Net loss for the period	(1,431)
Balance as at end of period	(20,405)

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AGM notice starts on next page.

Notice of Annual General Meeting

THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION.

If you are in any doubt as to the action you should take, you should immediately consult your stockbroker, solicitor or accountant or other professional adviser authorised under the Financial Services and Markets Act 2000. If you have sold or transferred all your shares in Optare plc, please hand this document, together with accompanying form of proxy, to the (intended) purchaser or transferee, or to the bank, stockbroker or other agent through whom the sale or transfer was effected, for transmission to the (intended) purchaser or transferee.

Notice of Annual General Meeting

OPTARE PLC (the "Company")

(Incorporated and registered in England and Wales with registered number 06481690)

Directors:

John Matthew Fickling (Non-executive Chairman)
Jim Sumner (Chief Executive Officer)
Jorma Halonen (Non-executive Director)
Anuj Kathuria (Non-executive Director)
PG Nilsson (Non-executive Director)
K Sridharan (Non-executive Director)
Venkat Venkataraman (Non-executive Director)

Registered Office:

Unit 3
Hurricane Way South
Sherburn in Elmet
Leeds
North Yorkshire
LS25 6PT
28 June 2012

To holders of ordinary shares of 0.1p each in the capital of the Company ("Ordinary Shares")

Dear Shareholder

2012 Annual General Meeting of Optare PLC (the "Company")

1. Introduction

I am pleased to be writing to you with details of the Company's 2012 annual general meeting ("Annual General Meeting" / "AGM") which we are holding at the Company's registered office, Unit 3, Hurricane Way South, Sherburn in Elmet, Leeds, North Yorkshire, LS25 6PT on 3 August 2012 at 10:00 am. The formal notice of the Annual General Meeting is set out at the end of this document.

2. Business to be transacted at the AGM

Details of the resolutions which are to be proposed at the Annual General Meeting are set out below.

Ordinary Resolution 1 – Reports and Accounts
The directors of the Company are required under the Companies Act 2006 to lay the audited annual accounts and reports for each financial year before the Company in General Meeting.

Ordinary Resolutions 2-7 – Election and re-election of Directors
In line with the Company's articles of association, all directors must retire as directors at the next AGM following their appointment and thereafter at the annual general meeting held in the third calendar year following the year in which such director was elected or re-elected.

As this is the first AGM following their respective appointments, the following directors will retire and be put forward for election:

Jorma Halonen
K Sridharan
P G Nilsson
Anuj Kathuria

As this is the third calendar year following the year in which they were last elected or re-elected, the following directors will retire and be put forward for re-election:

John Fickling
Jim Sumner

Notice of annual General Meeting (cont'd)

Ordinary Resolution 8 – Reappointment and Remuneration of Auditor
The auditors of the Company must be re-appointed at each meeting at which the Company's annual accounts are presented. Resolution 8 proposes the re-appointment of Baker Tilly UK Audit LLP. The resolution also follows past practice in giving the directors authority to determine the remuneration to be paid to the auditors.

Special Resolution 9 – Authority to Allot Shares and Disapplication of Pre-emption Rights
A special resolution is proposed which will allow the directors of the Company to grant options over shares and/or other rights to subscribe for shares in the Company to directors or employees (including non-executive directors) of the Company and its subsidiaries up to a maximum nominal value of £44,706 (44,706,000 shares), which represents approximately 2% of the Company's issued share capital as at the date of this letter. In addition, this resolution will give the directors power, when shares are issued pursuant to such options or rights to subscribe, to allot sufficient shares to Ashok Leyland Limited and its associated companies to maintain their aggregate holding at 75.1%, of the Company's then issued share capital (as enlarged by the issue of shares issued pursuant to such options or rights to subscribe).

This means that up to 134,837,000 shares could be issued to Ashok Leyland Limited and its associated companies if the full amount of options over 44,706,000 shares were issued and all of those options were exercised. Any shares issued to Ashok Leyland Limited and its associated companies will be at the same issue price as those issued pursuant to such options or rights to subscribe. If this resolution is passed, the Company will enter into a warrant instrument in favour of Ashok Leyland Limited under which Ashok Leyland Limited and its associated companies will have the right to subscribe for up to 134,837,000 additional shares in the Company in order to maintain their aggregate holding in these circumstances as described above.

3. Action to be taken

You are entitled to appoint one or more proxies to attend and vote at the Annual General Meeting on your behalf. You will find enclosed with this document a form of proxy for use in connection with the Annual General Meeting. Whether or not you propose to attend the Annual General Meeting in person, you are requested to complete and return the Form of Proxy to the Company's Registrar, Capita Registrar Limited, PXS, 34 Beckenham Road, Kent BR3 4TU as soon as possible and, in any event, so as to be received no later than 10:00 am on 1 August 2012. Completion and return of a Form of Proxy will not stop you from attending the Annual General Meeting and voting in person should you so wish.

4. Recommendation

The directors consider that all of the resolutions to be proposed at the AGM are in the best interests of the Company and its shareholders as a whole and unanimously recommend that shareholders vote in favour of all of the resolutions, as the directors intend to do in respect of their own beneficial holdings.

Yours faithfully

John Fickling
Non-executive Chairman

Notice of annual General Meeting

OPTARE PLC

Notice is given that the Annual General Meeting of the Company will be held at the Company's registered office, Unit 3, Hurricane Way South, Sherburn in Elmet, Leeds, North Yorkshire, LS25 6PT on 3 August 2012 at 10:00 am for the following purposes:

Ordinary Business

To consider and, if thought fit, to pass resolutions in respect of the following matters as ordinary resolutions of the Company:

1. To receive the Directors' Report and accounts for the period ended 31st March 2012 together with the reports of the Directors and auditors thereon.

2. To elect Jorma Halonen as a Non-Executive Director

3. To elect K Sridharan as a Non-Executive Director

4. To elect P G Nilsson as a Non-Executive Director

5. To elect Anuj Kathuria as a Non-Executive Director

6. To re-elect John Fickling as a Non-Executive Director

7. To re-elect Jim Sumner as an Executive Director

8. To reappoint Baker Tilly UK Audit LLP as auditor of the Company and to authorise the Directors to determine their remuneration.

Special Business

To consider and, if thought fit, to pass the following resolution as a special resolution of the Company:

9. That the directors of the Company be authorised pursuant to section 551 of the Companies Act 2006 (the "Act") to exercise all powers of the Company to allot shares in the Company and to grant rights to subscribe for shares in the Company and they be given power pursuant to sections 570 and 573 of the Act to allot shares in the Company and to grant rights to subscribe for shares in the Company as if section 561(1) and subsections (1)-(6) of section 562 of the Act did not apply to any such allotment, provided that such authority and power shall be limited to:

9.1 the grant of rights to subscribe for shares in the Company to directors and employees of the Company and its subsidiaries (on and subject to such terms and conditions as the directors may see fit) up to an aggregate nominal amount of £44,706 and the allotment for cash of shares in the Company following the exercise of such rights to subscribe; and

9.2 on the allotment of any shares in the Company following the exercise of the rights to subscribe referred to in paragraph 9.1 above, the allotment to Ashok Leyland Limited and its associated companies for cash (at an issue price equal to that at which the shares allotted pursuant to paragraph 9.1 were so allotted) of such number of shares in the Company as is necessary to maintain the percentage holding of Ashok Leyland Limited and its associated companies of shares in the issued share capital of the Company at 75.1%, up to an aggregate nominal amount of £134,837,

and further provided that such authority and power shall expire on the date of the next annual general meeting after the passing of this resolution; for the purposes of paragraph 9.1 above, the nominal amount of any rights to subscribe for shares of the Company shall be the nominal amount of such shares which may be allotted pursuant to such rights.

Notice of annual General Meeting (cont'd)

By order of the Board
Peter Phillips
Company Secretary

Registered Office:
Unit 3
Hurricane Way South
Sherburn in Elmet
Leeds
North Yorkshire
LS25 6PT
28 June 2012

Notes

1. Pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001 (as amended), the Company specifies that only those holders of ordinary shares of 0.1p each in the capital of the Company registered in the Company's Register of Members at:

1.1 6:00 pm on 1 August 2012; or
1.2 if this meeting is adjourned, at 6:00 pm two working days prior to the adjourned meeting;

shall be entitled to attend and vote at the meeting in respect of the number of ordinary shares of 0.1p each in the capital of the Company registered in their name at that time. Subsequent changes to entries in the Register of Members shall be disregarded in determining the rights of any person to attend or vote at the meeting.

2. A member may appoint more than one proxy in relation to the Annual General Meeting provided that each proxy is appointed to exercise the rights attached to different shares held by a member. You may not appoint more than one proxy to exercise rights attached to any one share. To appoint more than one proxy you may photocopy the Form of Proxy. Please indicate the proxy holder's name and the number of shares in relation to which they are authorised to act as your proxy (which, in aggregate, should not exceed the number of shares held by you). Please also indicate if the proxy instruction is one of multiple instructions being given. All forms must be signed and should be returned together in the same envelope.

3. The notes to the proxy form explain how to direct your proxy to vote on each resolution or withhold their vote. To appoint a proxy using the proxy form, the form must be:

3.1 completed and signed;
3.2 sent or delivered to Capita Registrars Limited, PXS, 34 Beckenham Road, Beckenham, BR3 4TU; and
3.3 received by Capita Registrars Limited no later than at 10:00 am on 1 August 2012 or two working days prior to any adjourned meeting or, in the case of a poll taken more than 48 hours after it is demanded, one working day before the time appointed for the taking of the poll.

In the case of a member which is a company, the proxy form must be executed under its common seal or signed on its behalf by an officer of the company or an attorney for the company. Any power of attorney or any other authority under which the proxy form is signed (or a duly certified copy of such power or authority) must be included with the proxy form.

4. The sending of a completed form of proxy to the Company's Registrar will not preclude members from attending and voting at the meeting, or any adjournment of it, in person, should they so wish.

5. Copies of the directors' service contracts with the Company or any of its subsidiary undertakings will be available:

5.1 for at least 15 minutes prior to the meeting; and
5.2 during the meeting.

6. A vote withheld is not a vote in law, which means that the vote will not be counted in the calculation of votes for or against the resolution. If no voting indication is given, your proxy will vote or abstain from voting at his or her discretion. Your proxy will vote (or abstain from voting) as he or she thinks fit in relation to every other matter which is put before the Annual General Meeting.

7. To change your proxy instructions, simply submit a new proxy appointment using the methods set out above. Note that the cut-off time for receipt of proxy appointments (see above) also applies in relation to amended instructions: any amended proxy appointment received after the relevant cut-off time will be disregarded.

8. If you submit more than one valid proxy appointment in respect of the same shares, the appointment received last before the latest time for the receipt of proxies will take precedence.

OPTARE PLC Company No. 06481690

FORM OF PROXY

I/We

of

being a member of the Company, hereby appoint the Chairman of the Meeting or

as my/our proxy to attend, speak and vote for me/us on my/our behalf at the Annual General Meeting of the Company to be held at 10:00am on 3 August 2012 and at any adjournment thereof.

I have indicated with a 'X' how I/we wish my/our votes to be cast on the following resolutions which are referred to in the Notice convening the Meeting (see note 1 below).

Resolutions	For	Against	Withheld
Ordinary Resolutions			
1. To receive the Directors' Report and accounts for the period ended 31st March 2012 together with the reports of the Directors and auditors thereon.			
2. To elect Jorma Halonen as a Non-Executive Director			
3. To elect K Sridharan as a Non-Executive Director			
4. To elect P G Nilsson as a Non-Executive Director			
5. To elect Anuj Kathuria as a Non-Executive Director			
6. To re-elect John Fickling as a Non-Executive Director			
7. To re-elect Jim Sumner as an Executive Director			
8. To reappoint Baker Tilly UK Audit LLP as auditor of the Company and to authorise the Directors to determine their remuneration.			
Special Resolution			
9. To authorise the directors to allot shares			

Signature Date

Please tick here if you are appointing more than one proxy.

Number of shares proxy appointed over.

Notes

1. Every holder has the right to appoint some other person(s) of their choice, who need not be a shareholder as their proxy to exercise all or any of their rights, to attend, speak and vote on their behalf at the meeting. If you wish to appoint a person other than the Chairman, please insert the name of your chosen proxy holder in the space provided (see over). If the proxy is being appointed in relation to less than your full voting entitlement, please enter the number of shares in relation to which they are authorised to act as your proxy. If left blank your proxy will be deemed to be authorised in respect of your full voting entitlement (or if this proxy form has been issued in respect of a designated account for a shareholder, the full voting entitlement for that designated account).

2. To appoint more than one proxy you may photocopy this form. Please indicate the proxy holder's name and the number of shares in relation to which they are authorised to act as your proxy (which, in aggregate, should not exceed the number of shares held by you). Please also indicate if the proxy instruction is one of multiple instructions being given. All forms must be signed and should be returned together in the same envelope.

3. The 'Vote Withheld' option is provided to enable you to abstain on any particular resolution. However, it should be noted that a 'Vote Withheld' is not a vote in law and will not be counted in the calculation of the proportion of the votes 'For' and 'Against' a resolution.

4. Entitlement to attend and vote at the meeting and the number of votes which may be cast at the meeting will be determined by reference to the Register of Members of the Company at 6:00pm on the 1 August 2012. Changes to entries on the Register of Members after that time shall be disregarded in determining the rights of any person to attend and vote at the meeting.

5. The completion and return of this form will not preclude a member from attending the meeting and voting in person. If you attend the meeting in person, your proxy appointment will automatically be terminated.

6. The Form of Proxy must arrive at Capita Registrars, PXS, 34 Beckenham Road, Beckenham, BR3 4TU during usual business hours accompanied by any power of attorney under which it is executed (if applicable) no later than 10:00am on the 28th July 2012.

7. If you prefer, you may return the proxy form to the Registrar in an envelope addressed to FREEPOST RSBH-UXKS-LRBC, PXS, 34 Beckenham Road, Beckenham, BR3 4TU.

8. Please indicate with a cross in the appropriate box how you wish the proxy to vote. In the absence of any indication, the proxy will exercise his/her discretion as to whether and how he/she votes.