Optare

An ASHOK LEYLAND Company

**Optare plc** Annual report and accounts 2013

# Optare is one of the most respected names in the UK bus industry.

We design, manufacture and sell single deck and double deck buses, and offer a comprehensive after sales service.

# Review of the year

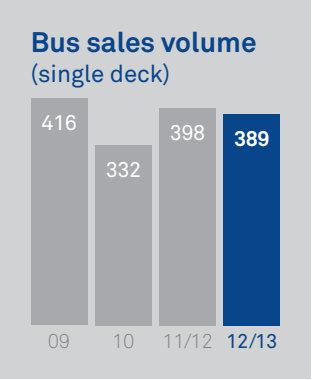
## Highlights

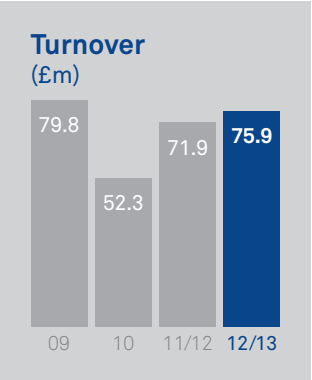
### Operational highlights

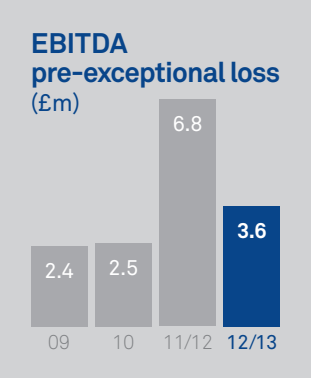
- Winning the prestigious Society of Motor Manufacturers and Traders (SMMT) Award for innovation for fast charging electric vehicle (EV) technology
- Launching three exciting new products: MetroCity, Versa 11.7m and Bonito
- Completing 10,000th bus since Optare formation in 1985
- Investing in a new paint shop and engineering systems to continue to deliver high quality engineered products
- Successfully completing the export of 177 Solo kits to the city of Cape Town. This is the highest ever export order achieved by the Company

### Financial highlights

- Revenue for the period is £75.9m, a growth of 6.0% over prior period of 15 months to 31 March 2012
- Direct labour costs were 7.6% of revenue, a reduction of 6.0% compared to 13.6% over the previous period
- Pre-exceptional gross profit was 6.9% of turnover over the 12 month period (4.9% for 2011/12 15 month period)
- Pre-exceptional administration costs were 11.6% of turnover over the 12 month period (15.0% for 15 month period from 1 January 2011 to 31 March 2012)
- EBITDA pre-exceptional losses were £3.6m (£6.8m for 15 month period from 1 January 2011 to 31 March 2012)
- Exceptional costs of £1.8m were for continued Blackburn site closure, redundancy and restructuring costs
- Loss per share reduced from 1.4p per share to 0.3p per share
- New increased banking facilities established with three year term loan and one year overdraft facility




### In this report



# Optare at a glance

## Our objectives and strategy for the Group

Building on a history of innovation, we have developed a range of low-carbon buses using enhanced diesel technology, alternative fuel options and hybrid systems, and even full electric drivelines.

With reduced weight designs and optimised drive systems our products set the benchmark for fuel economy and $CO^2$ reduction.

## Our business model


## Our strategy

Being a **European leader** in green bus technologies through research and development

Consolidating and maintaining **UK leadership** in the midi-bus market

Offering a **product portfolio** with the full range of buses as demanded by the UK bus market

# Our products

## Midi-bus

### Solo SR


seats up to **37**

### MetroCity

seats up to **29**

### Versa

seats up to **44**

## Mini-bus

### Bonito

seats up to **16**

## Full size single deck

### Tempo SR and C

seats up to **46**

## Double deck

### Double deck

To be launched in April 2014

seats up to **80**

Becoming a **significant exporter** of buses

**Expanding the market share** in the UK and Europe by selling buses to global standards at competitive prices

▶ Read more about how we are achieving these objectives in the Business and Financial Review on page 5

# Chairman's statement

## **John Fickling** Non-executive Chairman

We are continuing to focus on our strategy consistent with what we stated last year.

### Introduction

2012/13 has been a year of success for recognition of the Company's position as a leading supplier of green technology for passenger vehicles and the launch of products. Some of the major achievements for the year include:

1. Winning the prestigious Society of Motor Manufacturers and Traders (SMMT) Award for innovation for fast charging electric vehicle (EV) technology.
2. Launching three new exciting products: MetroCity, Versa 11.7m and Bonito.
3. Completing the 10,000th bus since Optare's formation in 1985.
4. Investing in a new paint shop and engineering systems to continue to deliver high quality engineered products.
5. Successfully completing the export of 177 Solo kits to the city of Cape Town.

Since the investment of Ashok Leyland, integration with the larger Group has been continuing. Through joint participation in a number of tenders for 2013/14 we are confident that we will be successful in new export opportunities. I would like to thank Ashok for its continued support.

### Strategic development

Our strategy is consistent with what we stated last year which is outlined below:

- being a 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; and
- expanding the market share in the UK and Europe by selling buses made to global standards at competitive prices.

During the year we have made progress on all these key strategic objectives.

### Our customers

Our customers remain key to our business and they continue to provide excellent support to the Company. We are also pleased to have received very good feedback on the quality and performance of the products and will continue to deliver excellent value through lower lifetime cost by designing and building lighter buses.

We are delighted to continue to strengthen our business with all the major bus groups including supplying to First Group after a gap of eight years. We are confident that this relationship will continue to grow and we remain committed to delivering high quality, innovative, value for money products on time.

### Our people

Our workforce is critical to the success of our business. I would like to thank their dedication, commitment and focus on delivering high quality products. They have also been critical in continuing to work with us to deliver the strategic objectives of the Company. Lastly, I would like to thank the shareholders for continuing to support the Company during its turnaround phase.

### Summary

In summary 2013/14 will focus on:

- developing products for export markets and driving international expansion, with Ashok Leyland support;
- increasing volume in the UK by further expanding the product range and participating in market segments where we do not have a presence;
- continuing to deliver environmentally friendly product technology; and
- continuing to drive cost reduction.

**John Fickling**
Non-executive Chairman
8 August 2013

# Business and financial review

**PG Nilsson** Interim Chief Executive Officer

The consolidation and investment in our manufacturing facilities provides us with stability and solid foundations to meet future opportunities and challenges.



## Business and financial performance

I am happy to report that in 2012/13 the Company continued to deliver improvements to achieve its strategic goal of delivering profitability. The Company posted overall sales of 389 single deck vehicles, a slight decrease on the previous 15 month year. Further to our traditional sales, we also successfully exported 177 kits to our partners in South Africa.

The total sales turnover increased from £71.9m to £75.9m, representing a growth of 6% over the previous 15 month to 31 March 2012 period. Profit after tax was a net loss of £7.4m, a reduction of £6.0m and 45% from the prior period due to continued restructuring progress.

The retail market continues to be suppressed with the overall sales volumes flat across the Company's traditional markets, with higher manufacturing capacity than demand. This continues to put pressure on the both price and volume. The continued financial crisis in the EU last year also put pressure on the volume front due to limited access to funding.

2012/13 saw some exciting products launched: Versa 11.7m, MetroCity and Bonito. The full benefits of these products are expected to be seen in the 2013/14 financial year. MetroCity, which was shown in the October bus show, is a perfect example of designing a product for the London market, which has been buoyant. This product is undergoing various trials with our customers. Versa 11.7m has been a success story where we have already sold 40 vehicles post the launch. The Bonito enables us to participate in a new segment, with a number of exciting opportunities being pursued on this front.

We ended the year with market share of 36% in the 8–13 tonne segment which is our primary market. This is a growth of 5% points from the prior year.

The 8–13 tonne is our primary participation market but is only 40% of the overall UK market. To reduce dependency on one section and one market and to improve top line growth the Company intends to diversify the product range and participate in various bus segments across both the UK and Europe in the future. The Company continues to invest in new products to secure the long-term growth of the Company. There are more exciting products that the Company will launch in the 2013/14 financial year to expand the range and enable Optare to compete in a wider market spectrum.

2012/13 was a year of continuing consolidation from three sites down to one and focusing on short-term actions to achieve profitability and minimise cash out flow while maintaining a long-term view of having the right product to grow and deliver sustainable profits. We continued to drive our headcount down from 531 in April 2012 to 376 in March 2013, delivering operational efficiencies.

The partnership with Ashok continues to grow through integration with their international operations for export opportunities within the Ashok Global business. We are confident that this will result in an increased presence in new markets and lead to the conversion of major contracts into future sizeable orders through their extensive global sales network. Further, we have exchanged key personnel on critical areas to focus on continuous improvement of quality and efficiency to transfer synergies between the organisations. We have also been successfully working with Ashok's supply chain to benefit from its critical mass and purchasing leverage to source materials from low cost countries to deliver material cost reductions.

## Financial performance

The financial results for the year show a net loss of £7.4m compared to a loss of £13.4m in the previous 15 month period which represents an improvement of 45%.

The £7.4m includes exceptional costs of £1.8m primarily relating to further Blackburn site closure costs and redundancy programme to deliver operational efficiencies. Improvements in performance were primarily driven by increased revenues combined with improvements in operational efficiency in the period. As a result the gross profit margin saw a 40% improvement on the prior year, before exceptional items.

# Business and financial review continued

We are confident that our quality, unique design and lifecycle cost will enable us to win some major tenders in the international market.

## Financial performance continued

The Group's financial performance for the period ended 31 March 2013 is reported in the Directors' Report; however, key highlights for the period ended are:

- revenue for the period is £75.9m, a growth of 6% over prior year;
- direct labour cost was 7.6% of revenue, a reduction of 6.0% compared to 13.6% over the previous period;
- pre-exceptional gross profit was 6.9% of turnover over the twelve month period (4.9% for 2011/12, 15 month period);
- pre-exceptional administration costs were 11.6% of turnover over the twelve month period (15.0% for 2011/12, 15 months period);
- EBITDA pre-exceptional losses were £3.6m (£6.8m for 2011/12, 15 month period);
- exceptional costs were for continued Blackburn site closure, redundancy and restructuring costs;
- loss per share reduced from 1.4p per share to 0.3p per share; and
- new increased banking facilities established with three year term loan and one year overdraft facility.

## Current trading

On 31 March 2013 the order book stood at £12.2m and the current order book stands at £20.2m. While higher bus manufacturing capacity in the UK and continued economic challenges in Europe provided significant headwind, the successful launch of three new products, MetroCity, Versa 11.7m and Bonito, should offset the risks and help deliver volume and revenue as planned.

We are the industry leaders in electric vehicles in the UK market. The winning of the SMMT Innovation Award is a testament to our market leading technology, and recently we won one of the largest single EV bus contracts with Nottingham which further enhances our reputation in this technology. With increasing pressure on fuel cost and environmentally conscious customers, this provides the Company with an avenue to differentiate and grow in a mature market.

## Board and management changes

Following the implementation of the three year turnaround plan, Jim Sumner elected to leave the organisation and resign from the Board of Directors. We thank him for his contribution and wish him the very best.

The Board is in advanced discussions to appoint a successor as Chief Executive Officer and this is expected to be announced in the coming months.

## Outlook

With the consolidation of site and turnaround behind us, it is time for the Company to deliver profitability. This will be driven by the product pipeline including the double deck and other new products for the export market in 2014.

The Board anticipates that the UK market will be flat in the near future but growing opportunities exist in the Middle East, Southeast Asia and Africa. There are a number of contracts in which Optare is participating in overseas markets and we are awaiting outcomes that, if positive, could, in the Board's view, significantly change the outlook for the business. We are confident that our quality, unique design and lifecycle cost will enable us to win some major tenders in the international market.

The Board looks forward to a profitable future with the successful launch of the new products, increasing demand and participation in the international market, given the successful integration with Ashok and recognition of the Company's low carbon technology.

**PG Nilsson**
Interim Chief Executive Officer
8 August 2013

# Board of directors

## PG Nilsson
(Interim Chief Executive Officer)

Holding degrees in business administration, political sciences and social sciences, 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 and regional director of 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. He became Optare Interim CEO in December 2012.

## John Fickling
(Independent Non-executive Chairman)

John 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 eleven 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.

## Jorma Halonen
(Independent 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 Jorma 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.

## K Sridharan
(Non-executive Director)

Having been with Ashok for close to three decades, Mr Sridharan (known as "KS") is a BCom 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.

## Anuj Kathuria
(Non-executive Director)

An engineering graduate from BITS and an MBA from XLRI, Jamshedpur, Anuj brings a wealth of experience across multiple functions including manufacturing, sourcing, mergers and acquisitions and programme 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.

## Venkatesan Venkataraman
(Non-executive Director)

Venkatesan is currently president of business development and 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 led the Ashok negotiations for their initial stake and, subsequently, their increased stake in Optare.

# Directors' report

The Directors submit their report and the financial statements of Optare plc for the year ended 31 March 2013.

## Principal activities

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

## Results and dividends

The results for the period shown in the Consolidated Income Statement on page 20 comprise the results of the Group for the year ended 31 March 2013. The comparative period comprises the results of the Group for the 15 month period ended 31 March 2012. The Company's year end was changed from 31 December 2011 to bring it into line with the year end of Ashok Leyland Limited.

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

## Business review

Revenue for the period was £75.9m (2012: £71.9m) and loss from operations before exceptional items was £5.5m (2012: £8.8m).

Exceptional costs of £1.8m (2012: £4.6m) reflect the costs incurred for the restructuring of the business to a single location and the associated closure, clean-up and staff related costs. Included are the costs of providing for additional obsolete double decker stock of £0.4m. The costs include the costs of redundancy of £0.4m.

Net interest cost rose to £0.8m (2012: £0.6m), reflecting the higher debt gearing. Basic and fully diluted loss per share fell to 0.3p (2012: 1.4p). Loss per share before exceptional items was 0.2p (2012: 0.9p).

Further commentary on the development and performance of the Group's business during the year and its position at the end of the year is set out in the Business and Financial Review on pages 5 to 6.

## Cash flow

Operating cash outflow before movements in working capital for the period was £5.3m (2012: £11.2m).

## 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

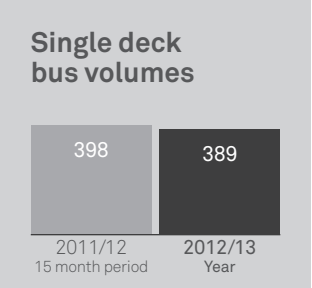
The Directors regularly monitor the business on a number of key performance indicators.

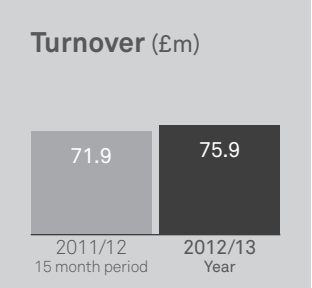
The key performance indicators are shown opposite and in the highlights on page 1.

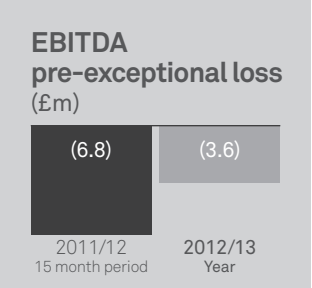
Bus volumes and turnover have both increased on an annualised basis as a result of the introduction of new models and the sale of additional kits to an overseas bus-builder in South Africa. The EBITDA pre-exceptional loss has decreased because of material, efficiency and a focus on fixed cost reductions now the business is located on one site.

## Financial instruments

The Group's financial instruments comprise cash, borrowings and finance leases, and various items such as trade debtors and trade creditors arising from its operations. 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




## Key performance indicators

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 (2012: £nil).

### Research and development

The Group does not carry out research, all efforts being focused 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.

The Company plans to break into the double decker market in 2014, with EV and hybrid variants to be made available. In 2015 the product offering will be increased further by the launch of a twelve metre vehicle for the European market.

### Events since the end of the year

See note 26, Post-period events, for detail.

### Directors

Directors who served in the year are as follows:

John Fickling
Jim Sumner (resigned 31 December 2012)
Jorma Halonen
Anuj Kathuria
PG Nilsson
K Sridharan
Venkatesan Venkataraman

During the year the Group maintained insurance policies providing liability cover to its Directors.

### 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.

It is Group policy to ensure that equal opportunity is given for the employment, training and career development of disabled persons, including persons who become disabled whilst in the Group's employment.

### Employee involvement

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

### Environmental policy

The Group environmental policy is to meet the statutory requirements placed upon it and to apply good environmental practice in its operations.

### 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 2013 were 131 days (2012: 73 days).

# Directors' report continued

## 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 EV and hybrid technology, carries a technical and execution risk. The Group continually 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.<br><br>Credit, liquidity, foreign currency and cash flow risks are discussed within the Consolidated Financial Statements Summary of Significant Accounting Policies. |

## 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 (February 2010). 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 6 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 controlling party is Amas Holding SA, 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.

## 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 8 August 2013 and signed on its behalf by:

**John Fickling**
Non-executive Chairman
8 August 2013

# 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 UK Corporate Governance Code 2010.

## 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 regard to 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 with the independent Non-executive Chairman, one independent Non-executive Director and four Ashok nominated Non-executive Directors. The role of Chief Executive is currently being filled on an interim basis by one of the 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 senior management and Interim CEO 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 eight separate occasions in the year.

## 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

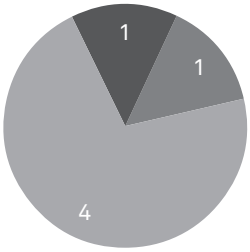
The Board delegates certain matters to its two principal committees, which deal with remuneration and audit.

## Remuneration Committee

The Remuneration Committee comprises the Non-executive Directors John Fickling and Venkatesan 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 year which were fully attended. The report on Directors' remuneration is set out on page 15.

## Board composition

- Independent Non-executive Chairman
- Independent Directors
- Non-executive Directors




## Audit Committee

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

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 the external auditor 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; and
- assessing the independence, objectivity and effectiveness of the external auditor.

The committee met on two occasions during the year 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 year 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 24 September 2013. 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 24.

**John Fickling**
Non-executive Chairman
8 August 2013

# Directors' remuneration report

The Company has established a Remuneration Committee which comprises the Non-executive Directors John Fickling and Venkatesan 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 marketplace.

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 a car. No pay rises were awarded during the year.

## 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 year ended 31 March 2013 totalled £223,023 (2012: £75,000) and related to the successful completion of the restructuring of the business.

## 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 year ended 31 March 2013, no share options were issued (2012: 12,000,000 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 contract 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

| | Salary £ | Benefits £ | Bonuses £ | Other* £ | **2012/13 Total £** | 2011/12 Total £ |
|---|---|---|---|---|---|---|
| **Executive Directors** | | | | | | |
| Jim Sumner | 164,631 | 9,149 | 223,023 | 16,250 | **413,053** | 379,671 |
| Mike Dunn | — | — | — | — | **—** | 199,257 |
| Peter Phillips | — | — | — | — | **—** | 128,001 |
| Glenn Saint | — | — | — | — | **—** | 38,811 |
| **Non-executive Directors** | | | | | | |
| John Fickling | 74,250 | — | — | — | **74,250** | 109,875 |
| Jorma Halonen | 10,000 | — | — | — | **10,000** | 5,130 |
| Anuj Kathuria | — | — | — | — | **—** | — |
| David Maughan | — | — | — | — | **—** | 2,500 |
| PG Nilsson | — | — | — | — | **—** | — |
| R Seshasayee | — | — | — | — | **—** | — |
| K Sridharan | — | — | — | — | **—** | — |
| David Stonehouse | — | — | — | — | **—** | 37,619 |
| Dr V Sumantran | — | — | — | — | **—** | — |
| Venkatesan Venkataraman | — | — | — | — | **—** | — |
| **Total** | 248,881 | 9,149 | 223,023 | 16,250 | **497,303** | 900,864 |

**Notes**

* Other principally includes employer pension contribution.

# Directors' remuneration report continued

## Directors' share options

| | Options at 31 March 2012 | Options granted in year | **Forfeited in year*** | Options at 31 March 2013 | Exercise price (pence) | Exercise period | Expiry date |
|---|---|---|---|---|---|---|---|
| John Fickling | 250,000 | — | **—** | 250,000 | 1.00p | 10 years | 03/07/2019 |
| John Fickling | 250,000 | — | **—** | 250,000 | 4.15p | 10 years | 03/07/2019 |
| Jim Sumner | 1,000,000 | — | **(1,000,000)** | — | 4.15p | 10 years | 03/07/2019 |
| Jim Sumner | 5,000,000 | — | **(5,000,000)** | — | 1.60p | 10 years | 07/10/2021 |
| Peter Phillips | 2,000,000 | — | **(2,000,000)** | — | 2.00p | 10 years | 16/06/2021 |
| Peter Phillips | 2,000,000 | — | **(2,000,000)** | — | 1.60p | 10 years | 07/10/2021 |

* Jim Sumner left the Company on 31 December 2012 and Peter Phillips left the Company on 30 June 2012. They both forfeited their shares in Optare plc on termination of their employment.

## Directors' interests in shares

Directors' interests in the shares of Optare plc as at 31 March 2013 were:

| | Number |
|---|---|
| John Fickling | 3,722,355 |
| **Total** | **3,722,355** |

No other Director had any interest in the shares of Optare plc as at 31 March 2013.

The market price of shares at 29 March 2013 (being the last trading day in the year) was 0.35p and the range during the year was 0.24p to 0.80p.

## Approval

This report was approved by the Board of Directors and authorised for issue on 8 August 2013 and signed on its behalf by:

**John Fickling**
Chairman of the Remuneration Committee

# Directors' responsibilities

## In the preparation of the financial statements

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 IFRS 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; and

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 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 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 ("IFRS") 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 auditor

As more fully explained in the Directors' Responsibilities Statement, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. 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 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 2013 and of the Group's loss for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRS 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 matter 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
8 August 2013

Company registration number 06481690

# Consolidated income statement

## For the year ended 31 March 2013

| | Notes | **Before exceptional items** | **Exceptional items** | **Total** | Before exceptional items | Exceptional items | Total |
|---|---|---|---|---|---|---|---|
| | | **Year ended 31 March 2013 £'000** | **Year ended 31 March 2013 £'000** | **Year ended 31 March 2013 £'000** | Period ended 31 March 2012 £'000 | Period ended 31 March 2012 £'000 | Period ended 31 March 2012 £'000 |
| **Revenue** | | **75,938** | **—** | **75,938** | 71,935 | — | 71,935 |
| Cost of sales | | **(70,695)** | **(1,483)** | **(72,178)** | (68,370) | (3,823) | (72,193) |
| **Gross profit/(loss)** | | **5,243** | **(1,483)** | **3,760** | 3,565 | (3,823) | (258) |
| Administrative expenses | | **(8,839)** | **(328)** | **(9,167)** | (10,812) | (776) | (11,588) |
| Distribution costs | | **(512)** | **—** | **(512)** | (493) | — | (493) |
| Amortisation of intangible assets | 11 | **(643)** | **—** | **(643)** | (422) | — | (422) |
| Loss from operations | 3 | **(4,751)** | **(1,811)** | **(6,562)** | (8,162) | (4,599) | (12,761) |
| Finance costs | 5 | **(788)** | **—** | **(788)** | (853) | — | (853) |
| Finance income | | **—** | **—** | **—** | 222 | — | 222 |
| Loss for the period from continuing operations | | **(5,539)** | **(1,811)** | **(7,350)** | (8,793) | (4,599) | (13,392) |
| **Loss on ordinary activities before taxation** | | **(5,539)** | **(1,811)** | **(7,350)** | (8,793) | (4,599) | (13,392) |
| **Taxation** | 6 | **—** | **—** | **—** | — | — | — |
| **Loss attributable to the equity holders of the parent company** | | **(5,539)** | **(1,811)** | **(7,350)** | (8,793) | (4,599) | (13,392) |

| | **Year ended 31 March 2013** | Period ended 31 March 2012 |
|---|---|---|
| **Loss per share (note 8):** | | |
| From continuing operations (basic and diluted) | **(0.3)p** | (1.4)p |

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

# Consolidated statement of changes in equity

## For the year ended 31 March 2013

| | Share capital £'000 | Share premium £'000 | Merger reserve £'000 | Retained loss £'000 | Share-based payment reserve £'000 | Total £'000 |
|---|---|---|---|---|---|---|
| Balance at 1 January 2011 | 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 and warrants | 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 |
| Loss for the year | — | — | — | (7,350) | — | (7,350) |
| **Total comprehensive income for the year** | — | — | — | (7,350) | — | (7,350) |
| Transactions with owners in their capacity as owners:- | | | | | | |
| Transfer between reserves on forfeiture of options | — | — | — | 156 | (156) | — |
| **Total transactions with owners in their capacity as owners** | — | — | — | 156 | (156) | — |
| **Balance at 31 March 2013** | **9,005** | **32,396** | **5,542** | **(51,723)** | **42** | **(4,738)** |

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

# Consolidated balance sheet

## At 31 March 2013

| | Notes | 31 March 2013 £'000 | 31 March 2012 £'000 |
|---|---|---|---|
| **Non-Current Assets** | | | |
| Goodwill | 10 | **8,574** | 8,574 |
| Other intangible assets | 11 | **8,271** | 8,032 |
| Property, plant and equipment | 12 | **3,356** | 3,126 |
| | | **20,201** | 19,732 |
| **Current Assets** | | | |
| Inventories | 13 | **10,338** | 11,275 |
| Trade and other receivables | 14 | **7,720** | 8,143 |
| Cash and cash equivalents | | **—** | 587 |
| | | **18,058** | 20,005 |
| Assets held for sale | 15 | **—** | 1,000 |
| **Total Assets** | | **38,259** | 40,737 |
| **Current Liabilities** | | | |
| Trade and other payables | 17 | **20,466** | 20,167 |
| Loans and overdrafts | 16 | **18,652** | 15,207 |
| Provisions | 18 | **2,217** | 1,405 |
| Obligations under finance leases | 19 | **79** | 49 |
| | | **41,414** | 36,828 |
| **Non-Current Liabilities** | | | |
| Provisions | 18 | **1,394** | 1,052 |
| Obligations under finance leases | 19 | **189** | 245 |
| | | **1,583** | 1,297 |
| **Total Liabilities** | | **42,997** | 38,125 |
| **Net (Liabilities)/Assets** | | **(4,738)** | 2,612 |
| **Equity** | | | |
| Share capital | 21 | **9,005** | 9,005 |
| Share premium | | **32,396** | 32,396 |
| Share-based payment reserve | | **42** | 198 |
| Merger reserve | | **5,542** | 5,542 |
| Retained loss | | **(51,723)** | (44,529) |
| **Total equity attributable to equity holders of the parent** | | **(4,738)** | 2,612 |

The financial statements on pages 20 to 46 were approved by the Board of Directors and authorised for issue on 8 August 2013 and are signed on its behalf by:

**John Fickling**
Non-executive Chairman

# Consolidated cash flow statement

## For the year ended 31 March 2013

| | Notes | **Year ended 31 March 2013 £'000** | Period ended 31 March 2012 £'000 |
|---|---|---|---|
| **Operating activities** | | | |
| Cash absorbed by operations | 25 | **(2,537)** | (14,946) |
| Interest paid | 5 | **(788)** | (853) |
| **Net cash used in operating activities** | | **(3,325)** | (15,799) |
| **Investing activities** | | | |
| Disposal of assets held for sale | 15 | **1,000** | 1,000 |
| Purchase of property, plant and equipment | | **(800)** | (1,920) |
| Internal capitalised costs | 11 | **(882)** | (1,582) |
| Interest received | 5 | **—** | 222 |
| **Net cash used in investing activities** | | **(682)** | (2,280) |
| **Financing activities** | | | |
| Proceeds from issuance of ordinary shares | | **—** | 10,821 |
| Finance lease repayments | | **(60)** | (23) |
| Loan repayments | | **—** | (3,395) |
| Short-term loan | | **2,023** | 9,995 |
| **Net cash generated from financing activities** | | **1,963** | 17,398 |
| **Net (decrease) in cash and cash equivalents** | | **(2,044)** | (681) |
| Cash and cash equivalents at start of year | | **(3,401)** | (2,720) |
| **Cash and cash equivalents at end of period** | | **(5,445)** | (3,401) |

# Summary of significant accounting policies

## In respect of the consolidated financial statements

### Basis of preparation

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

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 made a net loss of £7.4m in the year ended 31 March 2013 (2012: £13.4m), which has resulted in the Group now having net liabilities of £4.7m (2012: net assets of £2.6m).

The Group has reviewed its strategy in 2013 and put forward a trading forecast through to March 2016 which includes detailed cash flow calculations. The Group has put facilities in place to meet its funding requirements. The forecasts are based on detailed assumptions as to sales performance, variable and fixed costs. The forecasts reflect the introduction of new products from 2014/15, the strength of the current order book and prospects. This includes an increased level of exports, both fully built and kits, 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 2012/13 and from further expected gains from process improvement and redesigns of the buses for efficient manufacturing.

There is inherent uncertainty in any forecast. In assessing such forecasts the Directors have considered the impact of such uncertainties, including 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 and that the facilities in place have adequate headroom to allow for these uncertainties.

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 higher than forecast a) sales volumes b) material savings, arising from joint initiatives with Ashok, and c) productivity savings. Further significant high volume sales opportunities exist in Europe, Southern Africa, the Middle East, Asia and Australia in excess of the forecast volumes. Further fixed cost base synergies to integrate the business further with Ashok.

The Company has been successful in restructuring its debt in June 2013 to provide total bank facilities of £23m. These are structured into a term loan for three years for £15.0m backed by corporate guarantee provided by Ashok and an overdraft element of £8.0m which falls due for renewal in June 2014. There is a fixed charge on the assets of the Company following the re-negotiation of facilities in June 2013. Both of these facilities are placed with Barclays Plc. The Directors are confident that the overdraft bank facilities will be renewed.

The Group also has a £5.2m short-term loan facility from Ashok as at 31 March 2013, with a 30 day notice repayment notice subject to banking covenants.

The Directors are confident that the assumptions underlying their forecast are reasonable and that the Group will be able to operate within its increased current funding limits arranged with support from Ashok. The Directors believe that the Group is well placed to manage its business risk successfully.

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 9 | Financial Instruments | 1 January 2015 |
| IAS 32 | Financial Instruments | 1 January 2014 |

The application of these standards and interpretations is 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 delivery of the goods, 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.

## 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 15 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.

# Summary of significant accounting policies continued

## In respect of the consolidated financial statements

### 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.

### 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 property, plant and equipment 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 and liabilities

#### 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.

## Financial assets and liabilities continued

### Leased assets continued

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; and
- 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.

## 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% over 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 to inventory 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 a weighted average value method ("WAV") and are stated 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 variable overheads.

## Provisions

Provisions are recognised when the Group has a present obligation as a result of a past event and a reliable estimate can be made of a probable adverse outcome, for example warranties. Otherwise, material contingent liabilities are disclosed unless the transfer of economic benefit is remote.

## 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.

# Summary of significant accounting policies continued

## In respect of the consolidated financial statements

### Share-based payment transactions continued

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.

#### 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 efficiency 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 £292,000.

#### Impairment reviews

Management performs impairment reviews annually on goodwill, other intangible assets and tangible assets. These involve comparing the estimated future cash flows of the business, using a discounted rate, to the carrying value of the Group's non-current assets. Where the net present value of the forecast cash flows 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; critical judgements are the discount rate used and the growth in turnover in the next three years' business plan by the introduction of new products.

### 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; and
- 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

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 cash flow 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.

## Financial instruments – risk management continued

### Interest rate risk continued

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 £0.2m.

### 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 purchasing currency in advance to manage this risk. The Company's 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.

### 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 functions 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.

At 31 March 2013 the Group had net liabilities of £4.7m, compared to net assets of (£2.6m at 31 March 2012). The net debt of the Group was £18.7m at 31 March 2013 compared to (£15.2m at 31 March 2012).

Gearing ratio at the year/period end is as follows:

| £'m | **2013** | 2012 |
|---|---|---|
| Debt | **18.7** | 15.2 |
| Cash and cash equivalents | **—** | (0.6) |
| Net debt | **18.7** | 14.6 |
| Capital | **14.0** | 17.2 |
| Net debt to capital ratio | **134%** | 84% |

Additional debt finance debt has been raised to meet the capital requirements of the Group.

## 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 rates. 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 £187,000.

# Notes to the consolidated financial statements

For the year ended 31 March 2013

## 1. Business and geographical segments and customer concentration

| | Year ended 31 March 2013 £'000 | Period ended 31 March 2012 £'000 |
|---|---|---|
| Geographical analysis of revenue is as follows: | | |
| UK | **60,762** | 70,131 |
| Other EU | **—** | — |
| Non-EU | **15,176** | 1,804 |
| Total revenue | **75,938** | 71,935 |

Non-EU overseas relates to an overseas bus-builder in South Africa.

During the period three customers accounted for more than 10% of revenue. Two of the customers are large UK bus operating groups and comprised 22.6% of revenue and the other is an overseas bus-builder that represented 21.8% of revenue (2012: one large bus operating group (13.5% of revenue) and one local authority (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.

| | Year ended 31 March 2013 £'000 | Period ended 31 March 2012 £'000 |
|---|---|---|
| Blackburn site clean-up costs | **398** | — |
| IDD double decker material write off | **385** | 443 |
| Others | **363** | — |
| Redundancy costs | **337** | 606 |
| Closure of Leeds site and site set-up costs | **—** | 1,553 |
| Penal contracts | **—** | 419 |
| Supply chain disruption | **—** | 409 |
| Sherburn start-up costs | **—** | 200 |
| Cumbernauld lease | **—** | 193 |
| **Cost of sales** | **1,483** | 3,823 |
| Blackburn and Rotherham site closure costs | **288** | 225 |
| Redundancy costs | **40** | 401 |
| Blackburn assets write down | **—** | 150 |
| **Administration** | **328** | 776 |

The Group embarked on a three year turnaround programme in mid-2009 and by the end of 2012 the significant majority of these objectives had been completed. 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 downturn. The Directors consider the costs incurred to be an overall cost of the ongoing turnaround effort.

Redundancy costs of £337,000 and £40,000: Following the implementation of manufacturing on one site in Sherburn in Elmet, the business in 2012/13 focused on productivity and efficiency that has seen a substantial reduction in labour hours required to build a vehicle. This resulted in a redundancy programme for operational employees and a small number of staff employees.

Blackburn and Rotherham site clean-up costs of £398,000 and £288,000: Following the closure of the Blackburn manufacturing operation, in 2012/13 there was material additional costs above what was provided for in 2011/12 as management underestimated the cost of restating the property to the required legal standards to return the premises to the landlord in November 2012. These costs incurred related to clearing, removing and restating the facility back to the original condition. Following the sale of the remaining element of the Rotherham site in 2012, associated disposal costs and a contractual obligation to split the utilities for the site resulted in costs incurred or provided for amounting to £158,000.

## 2. Exceptional items continued

In the period a further provision was made for the entire remaining IDD double decker stock product produced at Blackburn. Obsolete components stocks of this model that will not be used in the new double decker have been scrapped or provided for, amounting to £385,000.

Other costs of £363,000 included the following: as part of the site consolidation, the Group outsourced its in-house metal, bracket and structure fabrication unit at the Leeds site in 2011/12. In 2012 a pricing premium of £199,000 was charged to reflect the costs in supporting our outsourced partner setting up their new manufacturing facility. Warranty engine failure of £164,000: It became apparent during 2012 that there were serious flaws in an engine that had been supplied to the Company. This led to significant engine failures within the year. These engine liabilities that are above normal run rate have been charged to exceptional costs.

## 3. Loss from operations

Loss from operations has been arrived at after charging/(crediting):

| | **Year ended 31 March 2013 £'000** | Period ended 31 March 2012 £'000 |
|---|---|---|
| Net foreign exchange loss/(gains) | **70** | (77) |
| Cost of inventories recognised in cost of sales | **55,809** | 50,835 |
| Write down inventories recognised as an expense | **385** | 1,049 |
| Amounts charged in respect of share options | **—** | 171 |
| Impairment of assets: | | |
| – owned assets | **—** | 150 |
| Depreciation: | | |
| – owned assets | **499** | 766 |
| – leased assets | **51** | 31 |
| Loss on disposal of fixed assets | **4,134** | 54 |
| Amortisation of intangible assets | | |
| Acquired | **120** | 150 |
| Internally generated | **523** | 272 |
| Rental under operating leases | **928** | 1,318 |
| Staff costs | **14,963** | 19,493 |
| Amounts payable to Baker Tilly UK Audit LLP and its associates in respect of both audit and non-audit services: | | |
| Audit services: | | |
| – statutory audit including audit of subsidiary companies | **75** | 95 |
| Non-audit services: | | |
| – services relating to corporate finance | **—** | — |
| – services relating to tax services – compliance | **15** | 16 |
| | **90** | 111 |

# Notes to the consolidated financial statements continued

For the year ended 31 March 2013

## 3. Loss from operations continued

The following table analyses the nature of expenses:

| | Year ended 31 March 2013 £'000 | Period ended 31 March 2012 £'000 |
|---|---|---|
| Cost of inventories recognised in cost of sales | **55,809** | 50,835 |
| Staff costs (see note 4) | **14,963** | 19,493 |
| Warranty | **2,884** | 1,640 |
| Logistics partners | **1,267** | 793 |
| Depreciation, amortisation and impairments (see notes 11 and 12) | **1,194** | 1,369 |
| Premises costs | **683** | 995 |
| Travel and subsistence | **645** | 504 |
| Transport costs | **512** | 493 |
| Marketing expenses | **442** | 753 |
| Motor expenses | **439** | 552 |
| Professional fees | **431** | 307 |
| Write down inventories recognised as an expense | **385** | 1,049 |
| Training, recruitment and relocation | **171** | 117 |
| Bank charges | **126** | 104 |
| Insurance | **118** | 181 |
| Other expenses | **619** | 913 |
| Total cost of sales, distribution, admin and other operating expenses | **80,688** | 80,098 |

The analysis above does not include exceptional costs.

## 4. Staff costs

The average monthly number of persons (including Directors) employed by the Group's total operations was as follows:

| | Year ended 31 March 2013 Number | Period ended 31 March 2012 Number |
|---|---|---|
| Production | **272** | 363 |
| Head office and administration | **171** | 189 |
| | **443** | 552 |

The aggregate remuneration for the above persons comprised:

| | Year ended 31 March 2013 £'000 | Period ended 31 March 2012 £'000 |
|---|---|---|
| Wages and salaries | **13,507** | 17,304 |
| Social security costs | **1,232** | 1,862 |
| Other pension costs | **224** | 327 |
| | **14,963** | 19,493 |

## 4. Staff costs continued

The compensation of the key management personnel on the Operating Committee (note 27) was:

| | **Year ended 31 March 2013 £'000** | Period ended 31 March 2012 £'000 |
|---|---|---|
| Short-term employee benefits | **737** | 978 |
| Pension and other post-employment costs | **32** | 54 |
| Share-based payments | **—** | 171 |
| | **769** | 1,203 |

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 16.

## 5. Finance costs and income

| | **Year ended 31 March 2013 £'000** | Period ended 31 March 2012 £'000 |
|---|---|---|
| Interest on bank overdrafts | **405** | 729 |
| Interest on loans from Ashok Leyland Ltd | **353** | 116 |
| Interest on obligations under finance leases | **30** | 8 |
| Total borrowing costs | **788** | 853 |
| Interest receivable | **—** | 222 |

## 6. Taxation

| | **Year ended 31 March 2013 £'000** | Period ended 31 March 2012 £'000 |
|---|---|---|
| Adjustments in respect of prior periods | **—** | — |
| Total current tax | **—** | — |
| Tax attributable to the Company and its subsidiaries | **—** | — |

Domestic income tax is calculated at 26% in 2011/12 and 24% of the estimated assessable profit for the period in 2012/13.

The charge for the period can be reconciled to the loss per the income statement as follows:

| | **Year ended 31 March 2013 £'000** | Period ended 31 March 2012 £'000 |
|---|---|---|
| Loss on ordinary activities before tax | **(7,350)** | (13,392) |
| Tax at the domestic income tax rate | **(1,764)** | (3,482) |
| Tax effect of expenses that are not deductible in determining taxable profit | **224** | 298 |
| Tax losses not utilised | **1,540** | 3,184 |
| Tax credit for the period | **—** | — |

# Notes to the consolidated financial statements continued

For the year ended 31 March 2013

## 7. Dividends

The Directors do not propose the payment of a dividend in respect of the current period (2012: £nil).

## 8. Loss per share

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

| | **Year ended 31 March 2013 £'000** | Period ended 31 March 2012 £'000 |
|---|---|---|
| Loss: | | |
| Loss for the purposes of basic loss per share (net loss for the period attributable to equity holders of the parent) | **(7,350)** | (13,392) |

| | **Number** | Number |
|---|---|---|
| Weighted average number of ordinary share for the purposes of basic earnings per share | **2,235,291,827** | 967,052,981 |
| Basic and fully diluted loss per share | **(0.3)p** | (1.4)p |

### Excluding exceptional items

| | **Year ended 31 March 2013 £'000** | Period ended 31 March 2012 £'000 |
|---|---|---|
| Net loss for the period attributable to equity holders of the parent | **(7,350)** | (13,392) |
| Adjustment to exclude exceptional costs | **1,811** | 4,599 |
| Loss from continuing operations for the purposes of basic earnings per share | **(5,539)** | (8,793) |
| Basic and fully diluted loss per share | **(0.2)p** | (0.9)p |

There are no dilutive potential ordinary shares in issue.

## 9. Subsidiaries

| Name of subsidiary | Place of incorporation and operation | Proportion of ownership interest | Proportion of voting power held | Principal activity |
|---|---|---|---|---|
| Optare UK Ltd | UK | 100% | 100% | Supplying kits 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 |

Since 31 March 2013 a number of subsidiaries have been applied to be struck off; these companies are listed in post-balance sheet events (note 26).

## 10. Goodwill

| | 31 March 2013 £'000 | 31 March 2012 £'000 |
|---|---|---|
| **Cost** | | |
| Balance at start of the period | **8,700** | 8,700 |
| At end of the period | **8,700** | 8,700 |
| **Impairment** | | |
| Balance at start of the period | **126** | 126 |
| At end of the period | **126** | 126 |
| **Carrying amount at the end of the period** | **8,574** | 8,574 |

Goodwill arose on the 2008 purchase of Jamesstan Investments Ltd 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 2016 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 significantly increase by the introduction of new products for the UK and European markets in 2014/15 and 2015/16 and then flatten off until the introduction of further new products.

A risk adjustment is then made using a pre-tax discount rate of 8.5% to arrive at the value in use. The discount rate used is based on the weighted average cost of capital for both debt and equity of the Company as a starting point.

Sensitivity analyses have been performed which assume that sales for the remainder of 2013 to March 2016 are at a lower level than assumed in the base case forecast and that margin improvements may not happen. A sales decline of 10% 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 2011 | 6,878 | 608 | 7,486 |
| Additions – internally generated | 1,582 | — | 1,582 |
| At 31 March 2012 | 8,460 | 608 | 9,068 |
| Additions – internally generated | 882 | — | 882 |
| **At 31 March 2013** | **9,342** | **608** | **9,950** |
| **Amortisation** | | | |
| At 1 January 2011 | 407 | 207 | 614 |
| Charge for the period | 356 | 66 | 422 |
| At 31 March 2012 | 763 | 273 | 1,036 |
| Charge for the year | 590 | 53 | 643 |
| **At 31 March 2013** | **1,353** | **326** | **1,679** |
| **Carrying amount** | | | |
| **At 31 March 2013** | **7,989** | **282** | **8,271** |
| At 31 March 2012 | 7,697 | 335 | 8,032 |
| At 1 January 2011 | 6,471 | 401 | 6,872 |

# Notes to the consolidated financial statements continued

## For the year ended 31 March 2013

### 11. Other intangible assets continued

The headroom by the principal CGU and sensitivities thereon, which are shown on a mutually exclusive basis, are shown below:

| | £'000 |
|---|---|
| Carrying value | 20,201 |
| Value in use | 57,875 |
| Headroom | 37,674 |
| Headroom after decreasing forecast sales by 5% | 20,866 |
| Headroom by increasing discount rate by 2% to 10.5% | 24,006 |

Of the vehicle related intangible assets' carrying amount at the period end, £6,819,000 (2012: £6,407,000) related to internally-generated assets and £1,170,000 (2012: £1,290,000) related to assets recognised on acquisition.

The vehicle related intangible assets include internally-generated new product developments in the period, which includes the Solo and Versa EV, Versa hybrid school bus, and Versa vehicle for the London market, and new product designs, such as the double decker, yet to be launched to market. Also included are vehicle designs included in the acquisition of Jamesstan Investments Ltd

### 12. Property, plant and equipment

| | Leasehold property improvements £'000 | Production tooling £'000 | Plant and equipment and motor vehicles* £'000 | Fixtures and fittings £'000 | Total £'000 |
|---|---|---|---|---|---|
| **Cost** | | | | | |
| As at 1 January 2011 | — | 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 |
| Additions | 143 | 307 | 349 | 1 | 800 |
| Disposals | — | (482) | (968) | (63) | (1,513) |
| **As at 31 March 2013** | **1,708** | **1,553** | **1,271** | **365** | **4,897** |
| **Depreciation and impairments** | | | | | |
| As at 1 January 2011 | — | 922 | 983 | 162 | 2,067 |
| Charge for the period | 45 | 410 | 428 | 64 | 947 |
| Disposals | — | — | (474) | (56) | (530) |
| Transferred | — | — | — | — | — |
| As at 31 March 2012 | 45 | 1,332 | 937 | 170 | 2,484 |
| Charge for the period | 116 | 202 | 231 | 2 | 551 |
| Impairment losses | — | — | — | — | — |
| Disposals | — | (478) | (953) | (63) | (1,494) |
| **As at 31 March 2013** | **161** | **1,056** | **215** | **109** | **1,541** |
| **Net book value** | | | | | |
| **As at 31 March 2013** | **1,547** | **497** | **1,056** | **256** | **3,356** |
| As at 31 March 2012 | 1,520 | 396 | 953 | 257 | 3,126 |
| As at 1 January 2011 | — | 664 | 1,327 | 321 | 2,312 |

* 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 inventory at net book value. Customer demonstration stock is £nil (2012: £nil).

The net book value of assets held under finance leases and hire purchase agreements is £319,000 (2012: £192,000).

## 13. Inventories

| | 31 March 2013 £'000 | 31 March 2012 £'000 |
|---|---|---|
| Raw materials and consumables | **4,451** | 4,969 |
| Work in progress | **5,168** | 6,148 |
| Finished goods | **719** | 158 |
| Total | **10,338** | 11,275 |

## 14. Trade and other receivables

| | 31 March 2013 £'000 | 31 March 2012 £'000 |
|---|---|---|
| Trade receivables | **6,858** | 6,493 |
| Allowance for estimated irrecoverable amounts | **(160)** | (105) |
| Net trade receivables | **6,698** | 6,388 |
| Other receivables and prepayments | **1,022** | 1,755 |
| Total | **7,720** | 8,143 |

Trade receivables past due but not impaired at the period end totalled £1,045,000 (2012: £810,000). The Directors consider that the carrying amount of trade and other receivables approximates to their fair value.

The Group has recognised an allowance for doubtful debt of 100% for parts debtors over 360 days. Allowances against doubtful debts are recognised against trade receivables between 30 days and 360 days based on estimated recoverable amounts based on past experience.

The Group's credit risk relates primarily to its trade receivables. The debtor days as at 31 March 2013 were 28 (2012: 41).

## 15. Assets held for sale

| | 31 March 2013 £'000 | 31 March 2012 £'000 |
|---|---|---|
| Assets held for sale | **—** | 1,000 |

## 16. Loans and overdrafts

| | 31 March 2013 £'000 | 31 March 2012 £'000 |
|---|---|---|
| Bank overdrafts | **5,445** | 3,989 |
| Bank loans | **8,000** | 8,000 |
| Short-term loan | **5,207** | 3,218 |
| | **18,652** | 15,207 |
| **Analysis of borrowings by currency** | | |
| Euro – cash balance | **(76)** | (367) |
| US Dollar – cash balance | **(10)** | — |
| Sterling – overdraft | **5,535** | 4,358 |
| Sterling – loans | **13,207** | 11,218 |
| Swiss Francs – cash balance | **(4)** | (2) |
| | **18,652** | 15,207 |

# Notes to the consolidated financial statements continued

For the year ended 31 March 2013

## 16. Loans and overdrafts continued

The Company had a short-term loan in place at 31 March 2013 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 2.6% over Bank of England base rate; the bank overdrafts are at a floating rate of 2.6% and 2.35% 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.

The Company renegotiated its bank overdraft facilities on 12 June 2013 to provide additional borrowing facilities. This led to a debenture being put in place over the Group's property, plant and equipment, receivables and inventories which are now held as security for the Group overdraft facilities with Barclays Plc.

## 17. Trade and other payables

| | **31 March 2013 £'000** | 31 March 2012 £'000 |
|---|---|---|
| Trade payables | **14,469** | 11,572 |
| Social security and other taxes | **1,399** | 1,346 |
| Accruals and deferred income | **4,598** | 7,249 |
| | **20,466** | 20,167 |

Creditor days as at 31 March 2013 were 131 days (2012: 73 days). The Directors consider that the carrying amount of trade payables approximates to their fair value. Of the trade payables outstanding at the period end those that were denominated in foreign currencies was £854,000 (2012: £1,317,064), principally in Euros.

## 18. Provisions

| | Warranty provision £'000 | Building provisions £'000 | Other provisions £'000 | Total provisions £'000 |
|---|---|---|---|---|
| At 1 April 2012 | 2,274 | — | 184 | 2,458 |
| Additional provision | 2,884 | 288 | — | 3,172 |
| Utilisation of provision | (1,994) | — | (25) | (2,019) |
| **At 31 March 2013** | **3,164** | **288** | **159** | **3,611** |
| Under one year provision | 1,904 | 288 | 25 | 2,217 |
| Over one year provision | 1,260 | — | 134 | 1,394 |
| **At 31 March 2013** | **3,164** | **288** | **159** | **3,611** |

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.

Management has estimated the cost of potential building claims relate to utility separation and dilapidation provisions for sites exited and sold in 2012/13.

The Other provisions relates to the costs of a leased premises that is unused and that expires in 2015.

## 19. Obligations under finance leases

| | **Minimum lease payments 31 March 2013 £'000** | **Present value of lease payments 31 March 2013 £'000** | Minimum lease payments 31 March 2012 £'000 | Present value of lease payments 31 March 2012 £'000 |
|---|---|---|---|---|
| Amounts payable under finance leases: | | | | |
| – within one year | **79** | **76** | 49 | 47 |
| – two to five years | **189** | **176** | 245 | 227 |
| | **268** | **252** | 294 | 274 |

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 (2011/12: 12%).

## 20. Deferred tax

At the reporting date, the Group has unused tax losses of £50,762,000 (2012: £44,347,000) available for offset against future profits. A deferred tax asset of £11,675,260 at a tax rate of 23% (2012: £10,199,810 at 23%) has not been recognised in respect of these losses due to the unpredictability of future profit streams.

## 21. Share capital

| | Ordinary shares of 1p each Number | Ordinary shares of 0.1p each Number | Deferred shares of 0.9p each Number | £ |
|---|---|---|---|---|
| At 1 April 2012 | — | 2,235,291,827 | 752,145,493 | 9,004,601 |
| Shares issued | — | — | — | — |
| **As at 31 March 2013** | **—** | **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.

A summary of the rights which will attach to the deferred shares, which render them effectively worthless, is as follows:

- they will 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 £10m per new ordinary share;
- they will not be 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.

# Notes to the consolidated financial statements continued

For the year ended 31 March 2013

## 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 £224,000 (2012: £327,000) represents contributions payable to these schemes by the Group at rates specified in the rules of the schemes. As at 31 March 2013, contributions of £54,000 (2012: £89,000) due in respect of the current reporting period had not been paid over to the schemes.

## 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. Options vest immediately on the date of issue; if options remain unexercised after a period of ten 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.

| | **2013** | | 2012 | |
|---|---|---|---|---|
| | **Options Number '000** | **Weighted average exercise price Pence** | Options Number '000 | Weighted average exercise price Pence |
| Outstanding at beginning of period | **14,250** | **1.95** | 2,250 | 3.45 |
| Granted during the period | **—** | **—** | 12,000 | 1.67 |
| Forfeited during the period | **(9,000)** | **1.95** | — | — |
| **Outstanding at the end of the period** | **5,250** | **1.95** | 14,250 | 1.95 |
| **Exercisable at the end of the period** | **5,250** | **—** | 14,250 | 1.95 |

No options were exercised during the period. The options outstanding at 31 March 2013 had an exercise price between 1.0p and 4.15p (2012: between 1.0p and 4.15p) and a weighted average remaining contractual life of 7.7 years (2012: 8.7 years).

On 25 June 2012 128,739,439 warrants were issued to Ashok Leyland Ltd and its associated companies Ashley Holdings Ltd and Ashley Investments Ltd On 10 August 2012 a number of these warrants lapsed. These warrants give Ashok Leyland Ltd and its associated companies the right to subscribe for additional shares to maintain their 75.1% shareholding in the event that any non-Ashok warrants or share options are exercised. At 31 March 2013 25,105,831 warrants were outstanding.

In 2012/13 fair value warrants were issued to Ashok Leyland companies of £2,430,785 (2012: £nil).

## 24. Operating lease arrangements

### The Group as a lessee

Commitments under non-cancellable leases for:

| | **31 March 2013 £'000** | 31 March 2012 £'000 |
|---|---|---|
| Buildings | **11,573** | 9,521 |
| Others | **248** | 206 |
| | **11,821** | 9,727 |

## 24. Operating lease arrangements continued

### The Group as a lessee continued

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

| | **31 March 2013 £'000** | 31 March 2012 £'000 |
|---|---|---|
| Amounts due within one year | **812** | 885 |
| Amounts due between one and five years | **2,831** | 2,589 |
| Amounts due after more than five years | **8,178** | 6,253 |
| | **11,821** | 9,727 |

## 25. Net cash from operating activities

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

| | **Year ended 31 March 2013 £'000** | Period ended 31 March 2012 £'000 |
|---|---|---|
| **Operating activities:** | | |
| – loss before tax | **(7,350)** | (13,392) |
| Tax | **—** | — |
| **Adjustments for:** | | |
| – share-based payments | **—** | 171 |
| – depreciation | **551** | 948 |
| – amortisation of intangible assets | **643** | 422 |
| – net finance expense | **788** | 631 |
| – loss on disposal of property, plant and equipment | **19** | 54 |
| Operating cash flows before movements in working capital | **(5,349)** | (11,166) |
| **Changes in working capital:** | | |
| – decrease/(increase) in inventories | **937** | (3,159) |
| – decrease/(increase) in trade and other receivables | **423** | (3,369) |
| – (increase)/decrease in trade and other payables | **297** | 3,135 |
| – increase/(decrease) in provisions | **1,155** | (387) |
| Total increase/(decrease) in working capital | **2,812** | (3,780) |
| Net cash absorbed in operating activities | **(2,537)** | (14,946) |

## 26. Post-period end events

The Company renegotiated its bank overdraft facilities on the 12 June 2013 to provide additional borrowing facilities; please see note 16 for further details.

The following subsidiaries of Optare plc have been applied to be struck off since 31 March 2013.

| Name of subsidiary | Place of incorporation and operation | Proportion of ownership interest | Proportion of voting power held | Principal activity |
|---|---|---|---|---|
| Optare Aftersales Ltd | UK | 100% | 100% | Dormant |
| Darwen LPD 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 |

# Notes to the consolidated financial statements continued

For the year ended 31 March 2013

## 27. Related party transactions

Key management is considered to be Board Directors and members of the Operating Committee ("OC") which includes the Chief Financial Officer and the Deputy Chief Executive Officer. 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 £5,207,000. 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 a £34,000 fee by Ashok Leyland Ltd in return for providing a guarantee (2012: £60,000) for the Group's borrowings of £15,000,000 with HSBC and Barclays (2012: £12,000,000).

The major shareholder, Ashok Leyland Ltd, is providing key employee resource to support the business. The charge was £216,000 in this year's results (2012: £100,000). The cost of this expense that remains outstanding at the period end was £316,000 (2012: £100,000).

During the year warrants were issued to Ashok Leyland Ltd and its associated companies. See note 23 for further details.

## 28. Financial instruments

| | **£'000** | £'000 |
|---|---|---|
| **Current financial assets** | | |
| Cash and cash equivalents | **—** | 587 |
| Trade and other receivables | **6,698** | 6,388 |
| **Total** | **6,698** | 6,975 |

| | **31 March 2013 Financial liabilities at amortised cost £'000** | 31 March 2012 Financial liabilities at amortised cost £'000 |
|---|---|---|
| **Current financial liabilities** | | |
| Trade and other payables | **19,067** | 18,821 |
| Bank loans and overdrafts | **13,445** | 11,989 |
| Obligations under finance leases | **79** | 49 |
| Other current financial liabilities | **5,207** | 3,218 |
| | **37,798** | 34,077 |
| **Non-current financial liabilities** | | |
| Obligations under finance leases | **189** | 245 |
| Total non-current financial liabilities | **189** | 245 |
| **Total** | **37,987** | 34,322 |

## 29. Parent company and ultimate controlling party

The Directors consider Ashok Leyland Ltd to be the Group's parent undertaking and Amas Holding SA, a company incorporated in Luxembourg, to be the Group's ultimate parent company. 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 registration number 06481690

# Company balance sheet

## As at 31 March 2013

| | Notes | 31 March 2013 £'000 | 31 March 2012 £'000 |
|---|---|---|---|
| **Fixed assets** | | | |
| Tangible assets | 31 | **—** | — |
| Investments | 30 | **59,076** | 54,018 |
| | | **59,076** | 54,018 |
| **Current assets** | | | |
| Bank deposits | | **—** | — |
| Debtors due within one year | 32 | **401** | 459 |
| | | **401** | 459 |
| Creditors: amounts falling due within one year | 33 | **34,106** | 28,847 |
| Net current liabilities | | **(33,705)** | (28,388) |
| **Net assets** | | **25,371** | 25,630 |
| **Capital and reserves** | | | |
| Share capital | 34 | **9,005** | 9,005 |
| Capital reserves | 35 | **36,832** | 36,832 |
| Share-based payment reserve | 36 | **42** | 198 |
| Retained loss | 37 | **(20,508)** | (20,405) |
| **Total equity** | | **25,371** | 25,630 |

The Company's loss after tax for the period was (£258,714) (2012: £1,430,535).

The financial statements on pages 43 to 46 were approved by the Board of Directors and authorised for issue on 8 August 2013 and are signed on its behalf by:

**John Fickling**
Non-executive Chairman

# Summary of significant accounting policies

## In respect of the company financial statements

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 Section 408 of the Companies Act 2006 and have not presented the profit and loss account 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 year ended 31 March 2013

## 30. 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 April 2012 | 39,923 | 30,224 | 70,147 |
| Addition | — | 5,058 | 5,058 |
| **At 31 March 2013** | **39,923** | **35,282** | **75,205** |
| **Impairment** | | | |
| At 1 April 2012 | 16,129 | — | 16,129 |
| Charge for the period | — | — | — |
| **At 31 March 2013** | **16,129** | **—** | **16,129** |
| **Carrying amount** | | | |
| At 1 April 2012 | 23,794 | 30,224 | 54,018 |
| **At 31 March 2013** | **23,794** | **35,282** | **59,076** |

Details of the Company's subsidiaries at 31 March 2013 are shown in note 9.

The 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.

## 31. Fixed assets

| | Fixtures and fittings £'000 |
|---|---|
| **Cost** | |
| At 1 April 2012 | 16 |
| Additions | — |
| **At 31 March 2013** | **16** |
| **Depreciation** | |
| At 1 April 2012 | 16 |
| Charged during period | — |
| **At 31 March 2013** | **16** |
| **Net book value as at 31 March 2013** | **—** |
| Net book value as at 31 March 2012 | — |

## 32. Debtors due within one year

| | **31 March 2013 £'000** | 31 March 2012 £'000 |
|---|---|---|
| Prepayments | **201** | 259 |
| Other debtors | **200** | 200 |
| Amounts due from subsidiary undertakings | **—** | — |
| Total | **401** | 459 |

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

# Notes to the company financial statements continued

For the year ended 31 March 2013

## 33. Operating lease arrangements

Annual commitments under non-cancellable leases for:

| | **31 March 2013 £'000** | 31 March 2012 £'000 |
|---|---|---|
| Buildings – expiring after five years | **542** | 542 |

## 34. Creditors: amounts falling due within one year

| | **31 March 2013 £'000** | 31 March 2012 £'000 |
|---|---|---|
| Overdraft | **6,923** | 3,899 |
| Bank loan | **8,000** | 8,000 |
| Loans from parent undertaking | **5,207** | 3,219 |
| Trade creditors | **218** | 308 |
| Amounts payable to subsidiary undertakings | **13,307** | 13,307 |
| Social security and other taxes | **271** | 44 |
| Accruals and deferred income | **180** | 70 |
| | **34,106** | 28,847 |

## 35. Share capital

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

## 36. Capital reserves

| | Share premium £'000 | Merger reserve £'000 | Total £'000 |
|---|---|---|---|
| As at 1 April 2012 | 32,396 | 4,436 | 36,832 |
| Issue of ordinary share capital (net of expenses) | — | — | — |
| **As at 31 March 2013** | **32,396** | **4,436** | **36,832** |

## 37. Share-based payment reserve

| | **31 March 2013 £'000** | 31 March 2012 £'000 |
|---|---|---|
| As at start of period | **198** | 27 |
| Charge for period | **—** | 171 |
| Forfeited during period | **(156)** | — |
| At end of period | **42** | 198 |

## 38. Retained loss

| | **Year ended 31 March 2013 £'000** | Period ended 31 March 2012 £'000 |
|---|---|---|
| As at start of period | **(20,405)** | (18,974) |
| Net loss for the period | **(259)** | (1,431) |
| Share-based forfeited/payment during period | **156** | — |
| Balance as at end of period | **(20,508)** | (20,405) |

# Letter to shareholders

**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 the accompanying Form of Proxy, to the purchaser or transferee, or to the bank, stockbroker or other agent through whom the sale or transfer was effected, for transmission to the 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)
PG Nilsson (Interim Chief Executive Officer)
Jorma Halonen (Non-executive Director)
Anuj Kathuria (Non-executive Director)
K Sridharan (Non-executive Director)
Venkatesan Venkataraman (Non-executive Director)

Registered office:
Unit 3
Hurricane Way South
Sherburn in Elmet
North Yorkshire
LS25 6PT

8 August 2013

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

Dear shareholder

**2013 Annual general meeting of Optare plc (the "Company")**

### 1. Introduction

I am pleased to be writing to you with details of the Company's 2013 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, North Yorkshire LS25 6PT on 24 September 2013 at 10.30am. 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 resolution 2 – Re-appointment and remuneration of auditor

The auditor of the Company must be re-appointed at each meeting at which the Company's annual accounts are presented. Resolution 2 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 auditor.

# Letter to shareholders continued

**2013 Annual general meeting of Optare plc (the "Company")** continued

## 2. Business to be transacted at the AGM continued

### Special resolution 3 – Authority to allot shares and disapplication of pre-emption rights

A special resolution is proposed which will allow the Directors of the Company to issue shares or grant options over shares and/or other rights to subscribe for, or convert any security into, shares in the Company to Directors or employees (including Non-executive Directors) of the Company and its subsidiaries, without first offering them to existing shareholders in proportion to their existing holdings, up to a maximum nominal value of £44,706 (44,706,000 shares). This represents approximately 2% of the Company's issued ordinary share capital as at the date of this letter. In addition, this resolution will give the Directors power to allot sufficient shares, or issue sufficient warrants to subscribe for ordinary shares, to Ashok Leyland Ltd and its associated companies, to maintain their aggregate holding at 75.1% of the Company's then-issued ordinary share capital (as enlarged by the issue of further shares pursuant to the power and authority conferred by this resolution).

This means that up to 134,837,000 shares could be issued to Ashok Leyland Ltd and its associated companies if the full amount of 44,706,000 new shares were issued to Directors and employees. The Board's intention is that any shares issued to Ashok Leyland Ltd and its associated companies will (to the extent practicable) be at the same issue price as those issued pursuant to this power and authority to Directors and employees.

## 3. Action to be taken

You are entitled to appoint one or more proxies to exercise all or any of your rights to attend, speak 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 Registrars Limited, PXS, 34 Beckenham Road, Kent BR3 4TU, as soon as possible and, in any event, so as to be received no later than 10.00am on 20 September 2013. 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, North Yorkshire LS25 6PT, on 24 September 2013 at 10.30am 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 annual accounts for the year ended 31 March 2013 together with the reports of the Directors and auditor thereon.
2. To re-appoint Baker Tilly UK Audit LLP as auditor of the Company and to authorise the Directors to determine its their remuneration.

### Special business

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

3. That the Directors of the Company be generally and unconditionally 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, or to convert any security into, shares in the Company, and they be given power pursuant to Sections 570 and 573 of the Act to allot equity securities (within the meaning of Section 560 of the Act) for cash as if Section 561 of the Act did not apply to any such allotment, provided that such authority and power shall be limited to:

   3.1 the allotment of equity securities 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

   3.2 the allotment to Ashok Leyland Ltd and its associated companies for cash of such number of equity securities as is necessary to maintain the percentage holding of Ashok Leyland Ltd and its associated companies of shares in the issued ordinary 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 at the conclusion of the next annual general meeting of the Company after the passing of this resolution or on 31 December 2014 (whichever is the first to occur), but the Company may, before such expiry, make an offer or agreement which would or might require equity securities to be allotted after such expiry, and the Directors may allot equity securities in pursuance of that offer or agreement as if the authority and power conferred by this resolution had not expired.

By order of the Board

**Abhijit Mukhopadhyay**
Company Secretary

Registered office:
Unit 3
Hurricane Way South
Sherburn in Elmet
North Yorkshire
LS25 6PT

8 August 2013

# Notice of annual general meeting continued

## 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 10.00am on 20 September 2013; or

   1.2 if this meeting is adjourned, at 10.00am 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. Members may appoint a proxy or proxies:

   2.1 by completing and returning a Form of Proxy by post or by hand to the offices of the Company's registrar, Capita Registrars Limited, in accordance with note 5 below; or

   2.2 in the case of CREST members, through the CREST electronic proxy appointment service.

3. A Form of Proxy which may be used to make such an appointment and give proxy instructions accompanies this notice of meeting. If you do not have a Form of Proxy and believe that you should have one, or if you require additional forms, please contact Capita Registrars on 0871 664 0300 (calls cost 10p per minute plus network extras from within the UK) or from overseas on +44 (0)20 8639 3399 (in either case lines are open 9.00am to 5.30pm (UK time) Monday to Friday).

4. 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 or request additional forms from Capita Registrars as set out in note 3 above. 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.

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

   5.1 completed and signed;

   5.2 sent or delivered to Capita Registrars Limited, PXS, 34 Beckenham Road, Beckenham BR3 4TU; and

   5.3 received by Capita Registrars Limited no later than 10.00am on 20 September 2013 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 Form of Proxy 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 Form of Proxy is signed (or a duly certified copy of such power or authority) must be included with the Form of Proxy.

6. 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.

7. CREST members who wish to appoint a proxy or proxies through the CREST electronic proxy appointment service may do so by using the procedures described in the CREST Manual (available via www.euroclear.com/CREST). CREST personal members or other CREST sponsored members, and those CREST members who have appointed a voting service provider(s), should refer to their CREST sponsor or voting service provider(s) who will be able to take the appropriate action on their behalf.

8. In order for a proxy appointment or instruction made using the CREST service to be valid, the appropriate CREST message (a "CREST Proxy Instruction") must be properly authenticated in accordance with Euroclear UK & Ireland Limited ("EUI")'s specifications and must contain the information required for such instructions, as described in the CREST Manual. The message, regardless of whether it constitutes the appointment of a proxy or is an amendment to the instruction given to a previously appointed proxy must, in order to be valid, be transmitted so as to be received by the issuer's agent (ID RA10) by 10.00am on 20 September 2013. For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp applied to the message by the CREST Applications Host) from which the issuer's agent is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST. After this time any change of instructions to proxies appointed through CREST should be communicated to the appointee through other means.

9. CREST members and, where applicable, their CREST sponsors or voting service providers should note that EUI does not make available special procedures in CREST for any particular messages. Normal system timings and limitations will therefore apply in relation to the input of CREST Proxy Instructions. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST personal member or sponsored member or has appointed a voting service provider(s), to procure that his CREST sponsor or voting service provider(s) take(s)) such action as shall be necessary to ensure that a message is transmitted by the CREST system by any particular time. In this connection, CREST members and, where applicable, their CREST sponsors or voting service providers are referred, in particular, to those sections of the CREST Manual concerning practical limitations of the CREST system and timings.

10. The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001.

11. 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.

12. In the case of joint holders, where more than one of the joint holders purports to appoint a proxy, only the appointment submitted by the most senior holder will be accepted. Seniority is determined by the order in which the names of the joint holders appear in the Company's register of members in respect of the joint holding (the first named being the most senior).

13. 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.

14. 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.

15. A corporation which is a member can appoint one or more corporate representatives who may exercise, on its behalf, all its powers as a member provided that no more than one corporate representative exercises powers over the same share.

16. Copies of the Directors' service contracts and letters of appointment of the Non-executive Directors with the Company or any of its subsidiary undertakings will be available:

    16.1 for at least 15 minutes prior to the meeting; and

    16.2 during the meeting.

17. You may not use any electronic address provided either in this notice of annual general meeting or any related documents (including the chairman's letter and Form of Proxy) to communicate with the Company for any purposes other than those expressly stated.

# Form of proxy

## Optare plc

I/We _____

of _____

being a member of the Company, 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 10.30am on 24 September 2013 and at any adjournment of it.

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 year ended 31 March 2013 together with the reports of the Directors and auditor thereon. | ☐ | ☐ | ☐ |
| 2. To re-appoint Baker Tilly UK Audit LLP as auditor of the Company and to authorise the Directors to determine its remuneration. | ☐ | ☐ | ☐ |
| **Special resolution** | | | |
| 3. To authorise the Directors to allot shares and dis-apply statutory pre-emption rights. | ☐ | ☐ | ☐ |

Signature _____ Date _____

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

Number of shares proxy appointed over: ☐

# Form of proxy continued

## Optare plc

### 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 Form of Proxy 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 10.00am on 20 September 2013. 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 20 September 2013.
7. If you prefer, you may return this Form of Proxy 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.

# Advisers

**Registered office**
Unit 3, Hurricane Way South, Sherburn in Elmet,
North Yorkshire LS25 6PT

**Company secretary**
Abhijit Mukhopadhyay

**Nominated adviser and broker**
Cenkos Securities plc
6.7.8. Tokenhouse Yard, London EC2R 7AS

**Solicitors to the Company**
Pinsent Masons
1 Park Row, Leeds LS1 5AB

**Auditor**
Baker Tilly UK Audit LLP
2 Whitehall Quay, Leeds LS1 4HG

**Registrar**
Capita Registrars
The Registry, 34 Beckenham Road, Beckenham,
Kent BR3 4TU

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the design portfolio
marketing services.
www.design-portfolio.co.uk

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