Optare

Optare plc

REPORT AND FINANCIAL STATEMENTS

for the period ended 31 December 2010

Company Registration No. 06481690

Contents

Forward-Looking Statements

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

Chairman's Statement

2010 was a year in which huge strategic milestones were passed, despite a backdrop of continued weakness in the market. As the downturn extended longer than had been anticipated through 2010, it became the worst recession for bus manufacturing in living memory. The major achievements in the year included:

- key green bus product developments completed and buses delivered, making Optare the leading single deck hybrid bus manufacturer in Europe;
- securing a strategic partnership with a global bus manufacturer, Ashok Leyland;
- reduction in debt levels;
- successful delivery of significant export contracts to mainland Europe for the first time.

Strategic Development

Our aim is to be:

- a European leader in green bus technologies by the development of the full range of options from fuel-efficient diesels to dual fuel, hybrid and electric vehicles;
- the UK leader in the midi-bus market;
- offering a product portfolio with the full range of buses that is demanded by the UK bus market;
- a significant exporter of buses;
- expanding market share in UK and Europe by selling high quality designs at competitive costs

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

Our people

The year brought with it new challenges, to which our management and workforce have risen. Whilst there is still a tremendous amount to do, I would like to thank all our employees for their dedication and hard work during what has been a very difficult period.

Summary

2010 was a year of strategic progress against a difficult market backdrop. We look forward to working with our strategic partner, and relocating to our new manufacturing facility, to take full advantage of the undoubtedly stronger market situation for 2011 and beyond.

John Fickling
Non-Executive Chairman

Business and Financial Review

Order Book and Market Conditions

The focus in 2010 has been on investing in new product and market development as part of the turnaround of Optare. This, however, was against the background of an extremely challenging year with the UK market down almost 40% against pre-recession levels. As announced in the 2009 interim results Optare started Q4 of 2009 with an extremely low order-book of £8.8m.

In the face of these adverse market influences, our strategy of developing low carbon buses and export markets following the placing in September 2009 was rewarded. At the date of the last Annual report in May 2010, I was able to report that the order book had improved to £25.3m, mainly due to securing a contract for 66 Hybrid buses for GMPTE of which 20 were delivered in Q3 of 2010.

Additionally, we successfully launched our new European specification Solo in the Benelux. In Q4 2010, 25% of our output was destined for export markets. However in the third quarter of 2010 there was a hiatus in UK order intake as the industry waited to see the impact of the Government's Comprehensive Spending Review ("CSR") in October 2010. This resulted in a number of smaller operators deciding to defer order placement into the New Year.

Overall the CSR was not as bad as had been expected by the industry and towards the end of 2010 it became clear that the big groups were planning to increase purchases of new buses in 2011. This along with the support provided by the Government's Green Bus Fund, has seen a significant improvement in the order-book, which had at, 6th May 2011, the last date available prior to this report, stood at a record £58m.

Product and Business Development

Despite the challenging market conditions, we invested £3.2m in to new product and market development in 2010. In addition to engineering activity to conform to new EU 'type approval' requirements from October 2010, the following milestones were achieved during the year including;

- Introduction of Optare's market leading Driver console to aid fuel-efficient driving, which recently received a national award from the Chartered Institute of Logistics and Transport;
- Launch of Optare's Advanced Hybrid system and delivery of the first tranche of twenty Solo and Versa variants as part of an extended contract for 88 Hybrid buses to Greater Manchester Passenger Transport Executive;
- Introduction of the UK's first Bio-methane and Electric buses into service.
- First sales of our new high-spec left-hand drive models for mainland Europe.

Operational highlights

Operationally 2010 was a very challenging year with the market down close to 40% from levels pre-recession. This resulted in operating with short lead-times putting great pressure on production and supply chains. Disruption was also experienced by the failure of two key suppliers during the year reflecting the difficult trading conditions faced by the industry.

As part of the turnaround strategy, a consistent focus has been to reduce from the 3 manufacturing sites the Company had in June 2009 (Rotherham, Blackburn & Leeds) to a single site in order to reduce the Group's break-even point. Following closure of the Rotherham site in August 2009, the decision was taken in September 2010 to cease the manufacture of new buses in Blackburn. The site now maintains a relatively small workforce for refurbishment, low-carbon upgrades, product development and some finishing operations.

Subsequent to the year end and as recently announced, Optare has signed a 17 year lease for a new manufacturing site in the Leeds area. The board believes that the new facility will be better able to support the Company in its growth phase by significantly increasing capacity enabling us to demonstrate to major operators that we have the ability to deliver fleet volumes. The new optimised plant layout is also expected to considerably improve efficiency.

Strategic partnership

We reported early last year that extensive discussions had been progressing with potential strategic partners. In July we were delighted to announce that Optare had entered into a strategic co-operation with Ashok Leyland (Ashok). Ashok, part of the Hinduja Group, acquired a 26% holding in Optare.

Ashok is India's largest bus manufacturer and second largest commercial vehicle maker in the medium and heavy vehicle segment. The Board continues to believe that entering into this partnership is a key part of Optare's strategy to realise the full potential of the business and that it will start to see the benefits in terms of best cost sourcing and joint product development activity emerging during 2011.

Board and Management Changes

Following the strategic partnership with Ashok Leyland, two very experienced industry professionals in Mr Seshasayee and Dr Sumantran have strengthened the Board joining as Non-Executive Directors. Subsequently David Maughan stepped down as a Non-Executive Director to pursue other business interests and we thank him for his contribution to the Company. Glenn Saint also stepped down from the Board but remains in a full-time role as COO, having taken on additional responsibility for the forthcoming Leeds site move.

To support growth of the business, the company has also commenced an initiative to strengthen its Executive, senior and middle management team following significant restructuring.

Financial Performance

The Group's financial performance for the year ended 31 December 2010 is reported in the Directors' Report, however key highlights relating to progress against the turnaround plan, to year end 2010 compared with 2009 are;

- While turnover was down 35% on 2009; EBITDA losses were reduced 68%
- Gross profit improved from 5.4% in 2009 to 8.5% and overheads reduced 31%
- Breakeven revenue reduced 30%;and
- Exceptional costs reduced from £6.9m in 2009 to £2.2m

In addition, a key focus of the turnaround plan has been to significantly reduce debt, which in June 2009 was reported at £10.3m compared to £3.3m the end of Q1 2011. The Group has repaid early the £6.3m term loan taken out in July 2008. The only remaining term debt is a £2.3m mortgage secured against the Rotherham freehold site. The site is being sold in two parts with contract exchange on the first tranche for just under £1m expected mid-May 2011.

A total of £21.5m of net proceeds have been raised via issue of equity in the past 18 months and have been used as follows

- Debt reduction £7.3m.
- Capital investment in new product development £4.1m.
- Redundancy costs incurred during the restructuring and consolidation to a single site £3.6m.
- Funds allocated for investment to be made in new factory £2.5m.
- Other capital investment £0.8m.

Remaining funds have been consumed in trading losses during the turnaround and the balance of exceptional costs which have been offset by improvements in working capital management.

Outlook

The last two years have been all about the turnaround of Optare from a challenging position. Although trading conditions during 2010 were tough, we have managed to continue laying down solid foundations for the future and are extremely proud of what has been achieved so far.

To date we have achieved a substantial increase in the order book, major reduction in net debt, reduced break-even revenue and invested in new product development. The Board is now of the opinion that, two years into the three year turnaround plan, 2011 will be the year that we really begin to see the fruits of our labour as the company moves into profitability.

We have formed a very strong partnership with Ashok which has been a great support so far and we expect to see the benefits of best cost sourcing and joint product development activity coming through this year.
Following the Placing in January 2011 we have secured our new factory which we expect to move to in the third quarter of this year. This new factory will be designed to meet our specific needs and will thus allow us to improve the production process and increase production output.
Given the significant reduction in debt and progress with the turnaround, the board expects working capital and asset financing to be a more effective option to meet the funding needs of the business moving forward.
The Board anticipates stronger UK demand, particularly for single-deck buses in 2012 and 2013, driven by an expected pre-buy of existing Euro 5 emission buses to avoid the additional cost burdens of Euro 6 legislation compliance due in 2013 and to comply with the Disability Discrimination legislation which is required for all single-decker buses by 2014. The increased capacity in our new site will enable us to be able to meet this anticipated extra production demand. In addition the company is making solid progress in export markets and is qualifying to tender for substantial contracts with the support of Ashok Leyland.
In light of the above and with the difficulties of the last few years behind us, a new, larger factory and the backing of Ashok and our institutional investors we have every reason to look forward to 2011 and beyond with confidence.

Jim Sumner
Chief Executive Officer

Officers and Professional Advisers

Directors, Company Secretary and Advisers

DIRECTORS

John Fickling (Non-executive Chairman)

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

Jim Sumner (Chief Executive Officer)

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

Mike Dunn FCA (Chief Financial Officer)

Mike Dunn is a chartered accountant with 20 years' experience since qualifying with KPMG. Most of his career has been spent in manufacturing businesses, with stints at Boliden Brass and 3i-backed engineer, Hydratight. He also spent five years at Gartland Whalley and Barker plc, a corporate developer. During that period, he was also Finance Director of AIM-listed Airbath Group plc, a GWB-backed bathroom equipment manufacturer. Mike's previous role was as Finance Director of Lynx Technology Ltd, an IT services company that was returned to profit before being sold to BT plc in September 2007. He has been with Optare since May 2008.

David Stonehouse FCA (Non-Executive Director)

David trained as a chartered accountant at Arthur Young, moving to Price Waterhouse in 1985. He remained there for 10 years, becoming a partner in 1989. Following a period as Chief Executive of Newcastle United he became senior independent non-executive Director of Parkdean Holidays plc, where he was involved in their AIM flotation and £28m fundraising in 2002. From 2002 to 2008, he was the Chairman at accountancy firm unw LLP. He is currently Chief Executive of Technology Services Group Limited, a £40 million turnover business supplying IT services to SMEs. He is chairman of the audit committee.

Mr R. Seshasayee (Non-Executive Director)

Mr R. Seshasayee is currently Executive Vice Chairman and earlier as Managing Director of Ashok Leyland since 1998 led its transformation into a globally competitive technology leader seeking growth through globalisation and diversification, via global acquisitions and joint ventures with Nissan Motor Company, John Deere, Continental AG and the Alteams Group. He is also the Executive Vice Chairman of Hinduja Automotive Limited, UK, the holding company of Ashok Leyland. He began his career as a Chartered Accountant with Hindustan Lever Limited in 1971 and joined Ashok Leyland in 1976

Dr V Sumantran (Non-Executive Director)

Dr. V Sumantran is Executive Vice Chairman of Hinduja Automotive Limited, UK, as well as member of the Board of Ashok Leyland. He serves as Chairman of the Hinduja Group's JVs with Nissan, John Deere and Continental as well as many associate companies including Ashok Leyland Defence Systems Limited, Albonair GmbH and Defiance Testing and Engineering Service Inc. Previously he was Executive Director of the Passenger Car Business as well as the Engineering Research Centre, Tata Motors Limited. Previously, Dr. Sumantran had spent 16 years with General Motors Corporation in the US and later Europe, where he served as Director, Advanced Engineering at SAAB Automobile AB

Officers and Professional Advisers (continued)

Registered Offices

Lower Philips Road
Whitebirk Industrial Estate
Blackburn
Lancashire
BB1 5UD

Company Secretary

Mike Dunn
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Blackburn
Lancashire
BB1 5UD

Nominated Adviser and Broker

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EC2R 7AS

Solicitors to the Company

Walker Morris
King's Court
12 King Street
Leeds
LS1 2HL

Auditors

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

Registrar

Capita Registrars
The Registry
34 Beckenham Road
Beckenham
Kent
BR3 4TU

Directors' Report

The Directors submit their report and the financial statements of Optare Group plc for the year ended 31 December 2010.

Principal Activities

The Company is engaged in bus design, manufacture, sales, coach sales, aftermarket support and bus reburbishment.

Results and Dividends for Year Ended 31 December 2010

The results for the year shown in the Consolidated Income Statement on page 17 comprise the results of the Group for the year ended 31 December 2010. The comparative period comprises the results of the Group for the year ended 31 December 2009.

Turnover for the year was £52.3m (2009:£ 79.8m) and loss from operations before exceptional items was £4.1m (2009:£ 4.9m) The operating loss reflects another difficult year. The weakness in demand for new diesel buses in the UK extended for longer than had been anticipated. Price competition continued to be very severe in some market sectors, particularly in the London double-deck market, and the company again refused to be drawn into the very low price levels that were being set. Therefore volumes suffered, particularly for double deck buses. Low order books resulted in short lead times for delivery of product, often within the normal lead time for engineering, procurement and manufacture of buses. This created inefficiencies within production.

Exceptional items fell significantly to £2.2m (2009: £6.9m). Due to continued market weakness, further downsizing of the workforce was necessary including a decision to cease manufacture of new buses in Blackburn. The costs include the costs of redundancy and notice periods of £1.5m. In addition, the value of Rotherham site has been written down by £0.4m to its expected sale value. Refinancing costs were £0.3m (2009: restructuring and redundancy costs £2.8m; warranty costs £1.6m; fundraising and associated costs of renegotiating bank facilities £0.2m; fixed asset impairment of £1.2m including Rotherham site £1m; additional costs relating to 2008's onerous contracts £0.9m, and costs of £0.1m relating to the termination of the proposed move to Walker Park.)

Net interest cost was unchanged at £0.3m (2009:£ 0.3m). Basic and fully diluted loss per share fell to 2.1p (2009: basic and fully diluted loss per share 8.4p). Loss per share before exceptional items was 1.4p (2009: 3.6p)

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

Cash Flow and Net Debt

Operating cash outflow before movements in working capital for the year fell to £4.7m (2009: £9.3m.)

Net bank debt fell by £1.5m from £7.6m at December 2009 to £6.1m 31 December 2010. The Directors are confident that net debt will fall further by applying the proceeds of the anticipated sale of the Rotherham property for mortgage repayment. The Company has renegotiated its banking covenants, based on the view of trading taken early in 2011.

Directors' Report (continued)

Political and Charitable Contributions

There were no political contributions during the year. Charitable contributions were £nil in the year (2009:£ nil)

Financial Instruments

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

Market Value of Land and Buildings

The company's sole freehold site at Hellaby Way, Rotherham has been actively marketed for sale. It has therefore been reclassified from fixed assets to asset held for sale. In the current economic circumstances the commercial property market is somewhat uncertain. With due regard to this the book value of land and building's is believed to be broadly in line with market value of £2.0m. A sale of the property which had been agreed in May 2010 fell through due to a change in attitude by the purchaser's bank. Subsequently the site has been marketed in two parts and sales have been agreed in principle for both parts, subject to contract.

Research and Development

The Group has one of the strongest product development teams in the industry. The Company does not carry out research, all efforts being focussed on development. Progress on development is reviewed in the Business and Financial Review.

Events Since the End of the Year

On 7 March 2011 the Company raised £7.4m from institutional shareholders by way of a placing of 370,000,000 ordinary shares.

Disabled Persons

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

Employee Involvement

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

Directors

Directors who served in the year are as follows:

John Fickling	
Jim Sumner	
Mike Dunn	
David Stonehouse	
David Maughan	(resigned 14 January 2011)
Glenn Saint	(appointed 29 January 2010, resigned 14 March 2011)
Mr R. Seshasayee	(appointed 27 October 2010)
Dr V. Sumantran	(appointed 27 October 2010)

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 December 2010 were 114 days (2009 76 days.)

Substantial Shareholdings

Information on substantial shareholdings and shares not in public hands is reported on our website www.optare.com in accordance with Rule 26 of the AIM Rules (June 2009).

Directors' Interest in Contracts

No Director had a material interest at any time during the year 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 'basis of preparation' section in Note 1 to the financial statements

Key Risks

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

Changes in legislation
Legislative changes may require investment in new product developments or adaptations which will incur cost.

Decrease in market demand
Market demand, whilst underpinned by strong long-term drivers, may fluctuate over the short- to medium-term.

Introduction of new technologies
Introduction of new technologies such as hybrid technology carries a technical and execution risk.

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.

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.

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.

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

Directors' Report (continued)

Auditors

The Directors elect Baker Tilly UK Audit LLP to continue as the Group's auditors. Baker Tilly UK Audit LLP has indicated its willingness to continue in office.

Statement as to Disclosure of Information to Auditors

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 auditors are 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 auditors are aware of that information.

Directors' Indemnity

Every Director shall be indemnified by the Company out of its own funds.

Mike Dunn FCA
Chief Financial Officer
6 May 2011

Corporate Governance

Principles of Corporate Governance

The company is committed to high standards of corporate governance. The Board is accountable to the company's shareholders for good corporate governance. The company has partially complied throughout the year with the code of best practice set out in Section 1 of the Combined Code 2006 (effective for periods commencing on or after 1 November 2006) appended to the Listing Rules of the Financial Services Authority whilst voluntary for AIM companies.

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 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

During the year the Board comprised initially the Non-executive Chairman, two independent Non-executive Directors and two Executive Directors, the CEO and CFO. In January an additional Executive Director, the COO was appointed to the Board.

Following the strategic partnership with Ashok Leyland in September 2010, the Board has evolved to the structure laid down in the Relationship Agreement between Optare and Ashok Leyland. That agreement specifies that Ashok Leyland are entitled to appoint two Directors provided that the Board shall comprise no more than six Directors.

It is envisaged that for the foreseeable future the Board structure will comprise two independent non-executive Directors (one of them being non-executive Chairman), two Ashok Leyland nominated non-executive Directors and two executive Directors, the CEO and CFO. Directors' dates of appointment and resignation are reported in the Directors' Report.

Board Role

The Board is responsible to shareholders for the proper management of the Group. The Non-Executive Directors have a particular responsibility to ensure that the strategies proposed by the Executive Directors 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 twelve 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 independent Non-executive Directors John Fickling and David Stonehouse. The Remuneration Committee determines and agrees with the Board the framework of remuneration for the Executive Directors. 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 pages 13 to 14.

Corporate Governance (continued)

Audit Committee

The Audit Committee comprises the independent Non-Executive Directors David Stonehouse 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-yearly and annual accounts prior to their recommendation to the Board.
- Reviewing the Group's internal financial controls and risk management systems and processes.
- Making recommendations on the appointment, re-appointment and removal of external auditors and approving the terms of engagement.
- Reviewing the nature of the work and level of fees for non-audit services provided by the external auditors.
- Assessing the independence, objectivity and effectiveness of the external auditor.

The committee met on two occasions during the 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. The Chairmen of the Audit and Remuneration Committees will be available at the Annual General Meeting to answer any shareholder questions. This year's Annual General Meeting will be held on 16 June 2011. The notice of the Annual General Meeting may be found at the back 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 in Note 1.

John Fickling
Non-Executive Chairman
6 May 2011

Directors' Remuneration Report

The Company has established a Remuneration Committee which is constituted in accordance with the recommendations of the Combined Code. The members of the committee are the independent Non-executives Directors John Fickling and David Stonehouse and the committee is chaired by John Fickling.

In determining the Directors' remuneration for the year, the Committee consulted the Chief Executive Officer about its proposals.

Remuneration Policy

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

There are four main elements of the remuneration packages for Executive Directors and senior management

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

Basic salary

Basic salary is reviewed annually in March with increases taking effect from 1 April. In addition to basic salary, the Executive Directors also receive certain benefits in kind, principally private medical insurance. No payrises were awarded during the year.

Annual bonus

The purpose of the bonus is to reward Executive Directors and other senior employees for achieving above average performance which also benefits shareholders. Incentive payments for the year ended 31 December 2010 totalled £115,154 (2009: £100,000) and related to the completion of the strategic partnership deal and fundraising.

Share option incentives

The Group offers share options to Executive Directors and other senior employees to facilitate the recruitment of candidates of appropriate experience and qualification. No share options were issued in the year. The exercise of the options issued in the year ended 31 December 2009 is not dependent on performance criteria, as they were issued in respect of commitments made at the time of recruitment. The company is reviewing its policy on performance criteria in respect of future tranches of share options.

Pension arrangements

During the year two Executive Directors were members of money purchase pension schemes 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 Executive Directors should have contracts with an indefinite term providing for a maximum of one year's notice. In the event of early termination, the Directors' contracts provide for compensation up to a maximum of basic salary for the notice period.

Non-Executive Directors

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

Directors' Remuneration Report (continued)

Directors' emoluments and compensation

	Notes	Salary £	Benefits £	Bonuses £	Other £	2010 Total £	2009 Total £
Exec Directors							
James Sumner		200,000	10,979	52,495	0	263,474	256,873
Mike Dunn	a	120,000	11,402	12,495	12,000	155,897	173,013
Glenn Saint		79,056	13,769	9,247	8,581	110,653	0
Non Executive Directors							
John Fickling	b	82,875	0	19,990	0	102,865	86,625
David Maughan		30,000	0	8,436	0	38,436	30,000
David Stonehouse		30,000	0	12,490	0	42,490	30,000
Mr R Seshasayee		0	0	0	0	0	0
Dr V Sumantran		0	0	0	0	0	0
Roy Stanley		0	0	0	0	0	17,500
Total	541,931	36,150	115,154	20,581	713,816	594,011	

Notes

a M Dunn's emoluments for the year include £nil in respect of Interim CEO role (2009:£87,600)

b J Fickling's emoluments for the year include £nil in relation to his period as Executive Chairman (2009: £66,250).).

Directors share options

	Options at 1.1.10	Options granted in year	Options at 31.12.10	Exercise price (pence)	Market price at date of exercise (pence)	Exercise period	Expiry date
J Sumner	1,000,000	-	1,000,000	4.15p	na	10 years	03/07/2019
M Dunn	250,000	-	250,000	1.00p	na	10 years	03/07/2019
M Dunn	500,000	-	500,000	4.15p	na	10 years	03/07/2019
J Fickling	250,000	-	250,000	1.00p	na	10 years	03/07/2019
J Fickling	250,000	-	250,000	4.15p	na	10 years	03/07/2019

The market price of shares at 31 December 2010 was 2.76p and the range during the year was 2.55p to 6.69p.

Directors' interests in shares of Optare PLC

	No's
John Fickling	2,722,355
Jim Sumner	1,395,497
Mike Dunn	548,501
David Stonehouse	485,714
David Maughan	239,968
Glenn Saint	100,000
Mr R. Seshasayee	-
Dr V Sumantran	-
Total	5,492,035

Approval

This report was approved by the Board of Directors and authorised for issue on 6 May 2011 and signed on its behalf by:

John Fickling
Chairman of Remuneration Committee

Directors' Responsibilities In The Preparation Of Financial Statement

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

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

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

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

In preparing each of the group and company financial statements, the Directors are required to:

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

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

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

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

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

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

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

Independent Auditor's Report to the Members of Optare plc

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

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

Respective responsibilities of Directors and Auditors

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

Scope of the audit of the financial statements

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

Opinion on the financial statements

In our opinion

- the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2010 and of the group's loss for the year then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

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

Matters on which we are required to report by exception

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

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

Richard King (Senior Statutory Auditor)
For and on behalf of BAKER TILLY UK AUDIT LLP, Statutory Auditor
Chartered Accountants
2 Whitehall Quay
Leeds
LS1 4HG

Consolidated Income Statement

For the year ended 31 December 2010

	Notes	Before Exceptional items	Exceptional items	Total	Before Exceptional items	Exceptional items	Total
		Year ended 31 Dec 2010 £'000	Year ended 31 Dec 2010 £'000	**Year Ended 31 Dec 2010 £'000**	Year ended ended 31 Dec 2009* £'000	Year ended ended 31 Dec 2009 £'000	**Year ended ended 31 Dec 2009* £'000**
Revenue		52,271		**52,271**	79,831	-	**79,831**
Cost of sales		(47,826)	(200)	**(48,026)**	(72,670)	(2,236)	**(74,906)**
Gross profit		4,445	(200)	**4,245**	7,161	(2,236)	**4,925**
Administrative expenses		(7,681)	-	**(7,681)**	(11,296)	-	**(11,296)**
Distribution costs		(524)	-	**(524)**	(558)	-	**(558)**
Amortisation of intangible assets	12	(290)	-	**(290)**	(173)	-	**(173)**
Loss from operations	3	(4,050)	(200)	**(4,250)**	(4,866)	(2,236)	**(7,102)**
Restructuring and other exceptional costs	2	-	(1,963)	**(1,963)**	-	(4,648)	**(4,648)**
Finance costs	6	(393)	-	**(393)**	(303)		**(303)**
Finance income	6	93	-	**93**	41	-	**41**
Loss for the year from continuing operations		(4,350)	(2,163)	**(6,513)**	(5,128)	(6,884)	**(12,012)**
Loss on ordinary activities before tax		(4,350)	(2,163)	**(6,513)**	(5,128)	(6,884)	**(12,012)**
Taxation	7	73	-	**73**	28	-	**28**
Loss attributable to the equity holders of the parent company		(4,277)	(2,163)	**(6,440)**	(5,100)	(6,884)	**(11,984)**

Loss per share (Note 9):	**2010**	**2009**
From continuing and discontinued operations (basic and diluted)	(2.1)p	(8.4)p

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

* Comparative data has been restated by moving £600,000 from cost of sales to administration expenses, to better reflect the classification of certain costs. See note 27

Consolidated Statement of Changes in Equity
For the year ended 31 December 2010

	Share capital	Share premium	Merger reserve	Retained earnings	Share based payment reserve	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Balance at 31 December 2008	1,084	15,798	5,542	(14,361)	-	8,063
Loss for the year	-	-	-	(11,984)	-	(11,984)
Total comprehensive income for the year	-	-	-	(11,984)	-	(11,984)
Transactions with owners in their capacity as owners:-						
Issue of shares and warrants	1,240	6,822	-	-	-	8,062
Total transactions with owners in their capacity as owners	1.240	6,822	-	-	-	8,062
Share-based payment	-	-	-	-	27	27
Balance at 31 December 2009	2,324	22,620	5,542	(26,345)	27	4,168
Loss for the year	-	-	-	(6,440)	-	(6,440)
Total comprehensive income for the year	-	-	-	(6,440)	-	(6,440)
Transactions with owners in their capacity as owners:-						
Issue of shares and warrants	1,497	4,139	-	1,648	-	7,284
Total transactions with owners in their capacity as owners	1,497	4,139	-	1,648	-	7,284
Balance at 31 December 2010	3,821	26,759	5,542	(31,137)	27	5,012

The merger reserve was created when Optare plc acquired Darwen Ltd via a share for share transaction.

Fair value of warrants issued within the year £1,648,000 2009 £nil

Consolidated Balance Sheet
at 31 December 2010

	Notes	2010	2009
		£'000	£'000
Non – Current Assets			
Goodwill	11	8,574	8,574
Other intangible assets	12	6,872	3,953
Property, plant and equipment	13	2,312	3,680
		17,758	16,207
Current Assets			
Inventories	14	7,742	7,175
Trade and other receivables	15	4,774	4,456
		12,516	11,631
Assets held for sale	16	2,000	2,400
Total Assets		32,274	30,238
Current Liabilities			
Trade and other payables	18	17,031	14,198
Bank loans and overdrafts	17	5,427	2,301
Provisions	19	1,245	1,958
Obligations under finance leases	20	23	35
		23,726	18,492
Non Current Liabilities			
Bank loans	17	1,912	5,287
Provisions	19	1,600	2,247
Obligations under finance leases	20	24	44
		3,536	7,578
Total Liabilities		27,262	26,070
Net Assets		5,012	4,168
Equity			
Share capital	22	3,821	2,324
Share premium		26,759	22,620
Share based payment reserve		27	27
Merger reserve		5,542	5,542
Retained loss		(31,137)	(26,345)
Total equity attributable to equity holders of the parent		5,012	4,168

The financial statements on pages 17 to 43 were approved by the Board of Directors and authorised for issue on 6 May 2011 and are signed on its behalf by:

Mike Dunn FCA
Chief Financial Officer

Optare Plc
Company Registration No. 06481690

Consolidated Cash Flow Statement
for the year ended 31 December 2010

	Notes	2010	2009
		£'000	£'000
Operating activities			
Cash absorbed by operations	26	(3,418)	(4,203)
Interest paid	6	(393)	(303)
Net cash used in operating activities		(3,811)	(4,506)
Investing Activities			
Purchase of property, plant and equipment	13	(75)	(1,065)
Purchase of intangible assets	12	(3,209)	(800)
Interest received	6	93	41
Net cash used in investing activities		(3,191)	(1,824)
Financing activities			
Proceeds from issuance of ordinary shares and warrants		7,284	8,062
Loan repayments		(3,407)	(1,715)
Short term loan		1,224	-
Net cash generated from financing activities		5,101	6,347
Net increase /(decrease) in cash and cash equivalents		(1,901)	17
Cash and cash equivalents at end of year			
Overdraft	17	(2,720)	(819)

Consolidated Financial Statements Summary of Significant Accounting Policies

Basis of Preparation

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

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.

The financial statements have been prepared on the going concern basis, which assumes that the Group will continue to be able to meet its liabilities as they fall due for the foreseeable future. The Group's banking facilities were renegotiated in September 2010. The overdraft facility, which comprises £3.0m and is annually renewable, falls due for renewal in September 2011. The directors are confident that the facility will be renewed.

The Group has prepared trading forecasts through to December 2012 which include detailed cash flow calculations. The forecasts are based on detailed assumptions as to sales performance by month. The forecasts reflect a higher level of turnover for the second half of 2011 than the first half, but are based largely upon order book. This includes an increased level of sales of Green Bus vehicles – both electric vehicles and hybrids. The forecast assumes a moderate level of savings in material costs, achieved both through the company's own efforts and through joint initiatives with Ashok.

During the first quarter of 2011, disruption was suffered due to restricted working capital. The forecast is based on the current state of affairs, where these issues have been resolved. Trade debtors and creditors are forecast to increase consistent with increased sales.

There is inherent uncertainty in any forecast. Such uncertainties include the risks involved in managing a rapid increase in output volumes; site move; lack of visibility regarding sales beyond the current order book. and the possibility that the external economic environment might worsen. However the Company is taking measures to ensure that production management is strengthened to boost output, and experienced project management is heavily involved in planning and executing the site move. Labour efficiency is key to important in achieving profitability, and the Directors have put in place strengthened operational management and procedures to ensure that this is achieved. The Directors feel that a reasonably balanced approach has been taken to these risks in the forecast.

Against these uncertainties, there are upside opportunities which are not reflected in the forecast but which would offset or mitigate the impact of downside risks which might occur. These include the further benefits of savings in material costs arising from joint initiatives with Ashok. Sales opportunities exist in Europe and other foreign territories for our buses in excess of the forecast volumes.

The Directors are confident that the assumptions underlying their forecasts are reasonable and that the Group will be able to operate within its overdraft limit. The Board believes that it is appropriate to prepare the financial statements on the going concern basis and that the uncertainties referred to above, when considered together with the upside opportunities, do not represent a material uncertainty. 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.

The financial statements have been prepared on a historical cost basis.

Consolidated Financial Statements Summary of Significant Accounting Policies (continued)

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
IAS 24	Revised IAS24 Related Party Disclosures	1 January 2011
IFRS 9	Financial Instruments	1 January 2013
IFRS 7	Financial instruments Disclosures	1 July 2011
IAS 12	Income Taxes – Deferred Tax	1 January 2012

International Financial Reporting Interpretations committee		
IFRIC 19*	Extinguishing financial Liabilities with equity Instruments	1 July 2010

** These standards and interpretations have been endorsed by the European Union.*

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

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

Revenue

The Company'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 Company's products. For the sale of vehicles and parts revenue is recognised on delivery 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 Company, their useful economic lives and the methods used to determine the cost of intangibles acquired in a business combination are as follows:

1. **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 is the anticipated useful economic life of the design up to 20 years. Amortisation is charged using a straight line basis.

2. **Customer Relationships**

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

Research and Development

Expenditure on research activities is 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 on a straight-line basis over their useful lives.

Amortisations of intangible assets 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 tangible fixed assets are subject to impairment tests whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. Where the carrying value of an asset exceeds its recoverable amount the asset is written down accordingly.

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

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

Consolidated Financial Statements Summary of Significant Accounting Policies (continued)

Financial Assets

Loans and receivables
These assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise principally through the provision of goods and services to customers (trade receivables, cash and cash equivalents), but also incorporate other types of contractual monetary asset. They are carried 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.

Other Financial Liabilities

Other financial liabilities comprise trade payables and other short-term monetary liabilities, which are recognised 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

Leased Assets

Where substantially all of the risks and rewards incidental to ownership of a leased asset have been transferred to the company (a "finance lease"), the asset is treated as if it had been purchased outright. The amount initially recognised as an asset is the present value of the minimum lease payments payable over the term of the lease. The corresponding lease commitment is shown as a liability. Lease payments are analysed between capital and interest. The interest element is charged to the income statement over the period of the lease and is calculated so that it represents a constant proportion of the lease liability. The capital element reduces the balance owed to the lessor.

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

Deferred Taxation

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

- the initial recognition of goodwill;
- goodwill for which amortisation is not tax deductible;
- the 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 Company 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:

Plant and machinery	-	10% to 25% per annum straight line
Fixtures, fittings and equipment	-	10% to 33% per annum straight line
Motor vehicles	-	17% to 25% per annum straight line

Demonstration fleet

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

Inventories

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

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

Provisions

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

Share-based payment transactions

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

Non vesting and market vesting conditions are taken into account when estimating the fair value of the option at grant date. Non-market vesting conditions are taken into account by adjusting the number of options expected to vest at each reporting date.
Cancelled options are accounted for as an acceleration of vesting. The unrecognised grant date fair value is recognised in profit or loss in the year that the options are cancelled.

Critical Judgements And Estimates

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

1. **Valuation Of Intangibles Acquired In Business Combinations**
   Determining the fair value of intangibles acquired in business combinations requires estimation of the cost or value of the cash-flows related to the identified intangibles and a suitable discount rate in order to calculate the present value.

Consolidated Financial Statements Summary of Significant Accounting Policies (continued)

2. Provision For Warranty Claims
Management has estimated the cost of potential warranty claims arising on acquisition of the various businesses; 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 years and the breadth in cover of the terms of the warranty given with the bus; the ability of the Company to obtain suitable back-to-back warranties from its suppliers; the efficacy of the quality processes applied in designing and building the buses; the strictness with which warranty claims from customers are vetted, and the extent to which goodwill claims are allowed. Judgements on the level of warranty provision that is required are based on the number of buses in service and their remaining warranty life, with the key estimation being the likely warranty cost per bus. This is based on historical data, with estimates where necessary for new vehicle designs. If the assumption for likely warranty cost per vehicle was adjusted by 10% this would equate to an under or over provision of £238,000.

The calculation per bus in 2010 is more detailed and is based on historical category of bus trends of warranty cost per bus compared to using an overall warranty cost per bus in previous years, the effect of any known service issues or campaigns, and a judgement of the impact of any changes to design, quality processes and policy for dealing with claims and goodwill.

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

Financial Instruments – Risk Management

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

- Liquidity risk
- Market risk
- Credit risk

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

Principal Financial Instruments

The principal financial instruments used by the Company, from which financial risk arises, are as follows:

- Trade receivables
- Trade and other payables

Liquidity Risk

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

Market Risk

Market risk arises from the use of interest bearing, tradable and foreign currency financial instruments. It is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in interest rates, currency rates or other market factors.

Fair Value And Cash Flow Interest Rate Risk

Management has a policy to obtain long term debt at fixed rates and short term debt at flexible rates. 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.

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 utilization of forward contracts to manage this risk. The Company bulk purchases of stock enable management of the overall pricing of materials, and monitoring of exchange rates ensures that the Company makes payments against trade payables at an appropriate time to reduce the effect of exchange rate fluctuations. Expected foreign currency receipts from export sales are taken into consideration in assessing the net foreign currency exposure.

Credit Risk

Credit risk is managed on a Group basis. Optare plc's credit risk is primarily derived from its trade receivables. This risk is managed daily by the Company's credit control function who monitor recovery 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. 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.

Net debt includes short and long-term borrowings (including overdrafts and lease obligations) net of cash and cash equivalents.

During the year the Group continued to take action to reduce its net bank debt to reduce gearing.

	2010 £'000	**2009 £'000**
Net debt	7,386	7,667
Total equity	12,398	11,835
Debt to equity ratio	59%	64%

The Group does not have any externally imposed capital requirements.

Sensitivity Analysis

Whilst Optare plc takes steps to minimise its exposure to cash-flow interest rate risk and foreign exchange risk as described above, changes in interest and foreign exchange rates may have an impact on profit and cash flow. Optare plc's foreign exchange risk is dependent on the movement in the Euro, US dollar and Swiss franc to sterling exchange rate. Any significant foreign currency denominated assets or liabilities at the period end are translated using exchange rates applicable at the time with any exchange rate difference being realised in the income statement. It is estimated that a one per cent increase/decrease in interest rates would increase/reduce losses and reduce/increase equity by approximately £50,000, and that a one per cent weakening/strengthening of sterling against the euro would increase/reduce losses and reduce/increase equity by approximately £50,000.

Notes To The Consolidated Financial Statements

for the year ended 31 December 2010

1. Business And Geographical Segments and Customer Concentration

	2010 £'000	2009 £'000
Geographical analysis of turnover is as follows:		
UK	47,842	79,502
Other EU	3,823	165
Non-EU	606	164
Total revenue	52,271	79,831

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

During the year no customer accounted for more than 10% of turnover. In 2009 more than 10% of revenue was generated from one customer. That customer was one of the large UK bus operating groups and it comprised 19.8% of turnover, purchasing new buses and parts from the Group.

2. Restructuring And Other Exceptional Items

Exceptional items are costs and income that are not expected to recur in the normal course of business.	2010 £'000	2009 £'000
Cost of sales	200	2,236
Restructuring costs	1,963	4,648
Discontinued activity		-
	2,163	6,884
Warranty	-	1,560
Redundancy and other restructuring costs	1,452	2,765
Impairment	400	1,224
Onerous contracts	-	858
Refinancing	311	245
Relocation costs	-	232
	2,163	6,884

The Group has been in a turnaround situation since mid-2009. Many decisive actions have had to be taken to remedy both legacy issues and the market downturn. The Directors consider the costs incurred to be an overall cost of the ongoing turnaround effort.

Restructuring costs: due to continued market weakness, further downsizing of the workforce was necessary including a decision to cease manufacture of new buses in Blackburn. The costs include the costs of redundancy and notice periods of £1,157,000 (2009: £1,051,000) and wage costs of periods of consultation which are deemed by management to have been unproductive of £295,000 (2009: £1,388,000).

Warranty costs in 2009: it became apparent during 2009 that serious flaws in the Company's quality systems had been allowed to develop by previous operational management. This has been tackled on two fronts: restoration of quality systems and quality control within the factories leading to a significant improvement in the quality of new buses; secondly, after-sales campaigns have been run to resolve the issues customers have faced in the field in order to successfully restore Optare's quality reputation. The extent to which these costs exceed the expected run-rate for warranty costs has been charged to exceptional costs.

Refinancing: in the year relate to the costs of renegotiating bank facilities.

Fixed asset impairment: is an impairment charge against the Rotherham site now held as an asset for sale of £400,000 (2009: £1,185,000)

Onerous contract costs: relate to certain significant contracts taken in 2008 and delivered during 2008 and 2009, and related penalty payments. The 2009 costs relate to further costs incurred on those contracts in the year. There were no new onerous contracts entered into in the year.

Relocation costs: relate to the planned 2008 move to Walker Park which has been aborted following the developer of the site being unable to complete required works within the required timeframe. In order to escape certain contractual and lease obligations relating to that site, further costs were incurred in 2009.

3. Loss From Operations

Loss from operations has been arrived at after charging/(crediting):	**2010 £'000**	**2009 £'000**
Net foreign exchange (gains)/ losses	(184)	(123)
Cost of inventories recognised in cost of sales	31,966	54,373
Amounts charged in respect of share options	-	27
Depreciation		
– owned assets	1,072	2,243
– leased assets	23	40
Amortisation of Intangible Assets	290	173
Rental under operating leases	778	583
Staff costs	14,021	18,706
Amounts payable to Baker Tilly UK Audit LLP and their associates in respect of both audit and non-audit services.		
Audit services		
– statutory audit including audit of subsidiary companies	68	78
Non Audit services:		
– Services relating to Corporate Finance	24	42
– Services relating to Tax Services - Advisory		8
– Services relating to Tax Services - Compliance	13	12
	105	140

4. Staff Costs

	2010	**2009**
The average monthly number of persons (including Directors) employed by the Group's principal divisions was as follows	No.	No.
Production	368	563
Head office and administration	179	153
	547	716

The aggregate remuneration for the above persons comprised:	**2010 £'000**	**2009 £'000**
Wages and salaries	14,145	16,758
Social security costs	1,644	1,669
Other pension costs	287	279
	16,076	18,706

Details of Directors' fees and salaries, bonuses, pensions, benefits in kind and other benefit schemes are given in the Directors' Remuneration Report on pages 13 to 14.

Notes To The Consolidated Financial Statements (continued)

for the year ended 31 December 2010

5. Depreciation and Amortisation

	2010 £'000	2009 £'000
Depreciation of property, plant and equipment	1,229	2,287
Impairment of goodwill	-	-
Amortisation of intangible fixed assets	290	173
	1,519	2,460

6. Finance Costs and Income

	2010 £'000	2009 £'000
Interest on bank overdrafts and loans	391	294
Interest on obligations under finance leases	2	9
Total borrowing costs	393	303
Interest receivable	93	41

7. Taxation

	2010 £'000	2009 £'000
Current taxation:		
UK Corporation Tax (credit)	-	(28)
Adjustments in respect of prior periods	(73)	-
Total current tax	(73)	(28)
Tax attributable to the Company and its subsidiaries	(73)	(28)

Domestic income tax is calculated at 28 per cent of the estimated assessable profit for the year.
The charge for the period can be reconciled to the loss per the income statement as follows:

	2010 £'000	2009 £'000
Loss on ordinary activities before tax	(6,513)	(12,012)
Tax at the domestic income tax rate 28%	(1,824)	(3,363)
Tax effect of expenses that are not deductible in determining taxable profit	256	639
Tax effect of utilisation of tax losses not previously recognised		
Deferred tax asset not provided	1,495	2,696
Other		
Tax credit for the year	(73)	(28)

8. Dividends

The Directors do not propose the payment of a dividend in respect of the current year (2009:nil)

9. Loss Per Share

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

	2010 £'000	2009 £'000
Loss:		
Loss for the purposes of basic earnings per share (net profit for the year attributable to equity holders of the parent)	(6,440)	(11,984)

	Number	Number
Weighted average number of ordinary share for the purposes of basic earnings per share	307,965,208	142,760,280
Basic and fully diluted loss per share	(2.1)p	(8.4)p

Excluding Exceptional Items	2010 £'000	2009 £'000
Net loss for the year attributable to equity holders of the parent	(6,440)	(11,984)
Adjustment to exclude exceptional costs	2,163	6,884
Loss from continuing operations for the purposes of basic earnings per share	(4,277)	(5,100)
Basic and fully diluted loss per share	(1.4)p	(3.6)p

There are no dilutive potential ordinary shares in issue. Potentially dilutive share options in issue are detailed in the Directors Remuneration Report. Subsequent to the year-end a share issue took place which would have affected the number of shares in issue if it had taken place prior to the year-end. Details are disclosed in Note 22.

Notes To The Consolidated Financial Statements (continued)

for the year ended 31 December 2010

10. Subsidiaries

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

11. Goodwill

	2010 £'000	2009 £'000
Cost		
Balance at start of the year/period	8,700	8,700
At end of the year/period	8,700	8,700
Impairment:		
Balance at start of the year/period	126	126
At end of the year/period	126	126
Carrying amount at the end of the year/period	8,574	8,574

Goodwill arose on the 2008 purchase of Jamesstan Investments Limited, Darwen LPD Ltd and Darwen Group Ltd (now Optare UK 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 year period based on current management forecasts to December 2011 and 2012 and extrapolation for later years.

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. For the remainder of 2012, they reflect an assumption that sales volumes will increase. It is management's view that there will in fact continue to be market growth through 2012 as the pressures on operators mount: to update their fleets to comply with the Disability Discrimination Act; to address the increased average age of their buses following a period during 2009-2010 of low investment; and through a desire to avoid the extra costs that will be incurred if they delay replacements until Euro 6 emissions regulations come into force. The planned new site will provide extra capacity sufficient to deliver these volumes.

11. Goodwill (continued)

The key assumptions applied in the extrapolations were:

Growth rate (%)	2.0%
Discount rate	9.47%

Management determined the gross margin rate based on past performance, future trading conditions and expected margins.

The discount rate used is the weighted average cost of capital calculated for the Company. A period of ten years has been used in the impairment review taking a conservative view of the relatively lengthy product life cycle of bus designs, which can extend as long as 20 years.

Sensitivity analysis has been performed which assumes that sales for the remainder of 2011 are at a lower level than assumed in the base case forecast, and that 2012 sales run at a rate similar to the Q4 sales level in the 2011 downside forecast.

12. Intangible Fixed Assets

	Vehicle related intangible assets £'000	Customer related intangible assets £'000	Total £'000
At 31 December 2008	2,869	608	3,477
Additions – internally generated	800	-	800
At 31 December 2009	3,669	608	4,277
Additions – internally generated	3,209	-	3,209
At 31 December 2010	6,878	608	7,486
Amortisation			
At 31 December 2008	50	101	151
Charge for the period	120	53	173
At 31 December 2009	170	154	324
Charge for the year	237	53	290
At 31 December 2010	407	207	614
Carrying amount			
At 31 December 2010	6,471	401	6,872
At 31 December 2009	3,499	454	3,953

Of the vehicle related intangible assets' carrying amount at the year-end, £5,015,000 (2009:£ 1,870,000) related to internally generated assets and £1,456,000 (2009:£ 1,629,000) related to assets recognised on acquisition.

The vehicle related intangible assets include internally generated new product developments in the year which includes the Solo Hybrid, Versa Hybrid, Solo EV, Euro 5 compliant vehicles, hi-spec left-hand drive Solo for export, the Optare Eco-Dash, Optare Olympus. Also included are vehicle designs included in the acquisition of Jamesstan Investments Ltd.

Customer related intangible assets relate to customer relationships and order book included in the acquisition of Jamesstan Investments Ltd

Customer related intangible assets are amortised over periods of between six months and ten years. Vehicle designs acquired by way of business combination are amortised over a period of 20 years on a straight line basis. In-house product developments are amortised over the expected economic life of the product, from 2 to 20 years.

Fixed assets are held as security for the Group loan and overdraft facilities with Bank of Scotland plc.

Notes To The Consolidated Financial Statements (continued)

for the year ended 31 December 2010

13. Property, Plant and Equipment

	Land & building £'000	Production tooling £'000	Plant & equipment & motor vehicles* £'000	Fixtures & fittings £'000	Total £'000
Cost					
As at 31 December 2008	3,692	1,309	1,797	483	7,281
Additions	-	219	846	-	1,065
Disposals	-	-	(80)	-	(80)
Transferred	(3,692)	-	603	-	(3,089)
As at 31 December 2009	-	1,528	3,166	483	5,177
Additions	-	58	17	-	75
Disposals	-	-	(31)	-	(31)
Transferred	-	-	(842)	-	842)
As at 31 December 2010		1,586	2,310	483	4,379
Depreciation					
As at 31 December 2008	31	155	317	102	605
Charge for the year	1,261	381	616	29	2,287
Disposals	-	(28)	(75)	-	(103)
Transferred	(1,292)	-	-	-	(1,292)
As at 31 December 2009	-	508	858	131	1,497
Charge for the year	-	414	383	31	828
Disposals	-	-	(19)	-	(19)
Transferred	-	-	(239)	-	(239)
As at 31 December 2010		922	983	162	2,067
Net book value					
As at 31 December 2010	-	664	1,327	321	2,312
As at 31 December 2009	-	1,020	2,308	352	3,680

Customer demonstration vehicles that are intended to be used in this capacity for twelve months or more are capitalised at cost as part of our demonstration fleet. When no longer required as a sales aid they are transferred to stock at net book value. Customer demonstration stock is £373,000 (2009: £975,000).

The net book value of assets held under finance leases and hire purchase agreements is £90,000 (2009: £112,000).
Fixed assets are held as security for the Group loan and overdraft facilities with Bank of Scotland plc.

14. Inventories

	2010 £'000	2009 £'000
Raw materials and consumables	3,975	4,284
Work in progress	3,588	2,891
Finished Goods	179	-
	7,742	7,175

Inventories are held as security for the Group loan and overdraft facilities with Bank of Scotland.

15. Trade and Other Receivables

	2010 £'000	2009 £'000
Trade receivables	4,256	3,946
Allowance for estimated irrecoverable amounts	(422)	(283)
Other receivables and prepayments	940	793
	4,774	4,456

The Directors consider that the carrying amount of trade and other receivables approximates to their fair value. The Group's credit risk relates primarily to its trade receivables, the debtor days as at the 31st December 2010 were 33 (2009 : 18).

16. Assets held for sale

	2010 £'000	2009 £'000
Assets held for sale	2,000	2,400

The Company's freehold land and buildings in Rotherham have been classified as non-current assets held for sale as management were committed to a plan to sell them at the reporting date and they were being actively marketed at a price which is considered to be reasonable given the age and condition of the assets. A sale for part of the property has been agreed subject to contact.

Notes To The Consolidated Financial Statements (continued)

for the year ended 31 December 2010

17. Bank loans and overdrafts

	2010 £'000	2009 £'000
Bank overdrafts	2,720	819
Bank loans	3,395	6,769
Short term loan	1,224	-
	7,339	7,588
The borrowings are repayable as follows:		
On demand or within one year	5,427	2,301
In the second year	1,229	1,482
In the third to fifth year (inclusive)	200	2,194
After 5 years	483	1,611
In more than one year	1,912	5,287
	7,339	7,588
Analysis of borrowings by currency		
Euro – overdraft/(cash balance)	179	(73)
US Dollar – cash balance	(7)	(1)
Sterling – overdraft	2,331	822
Sterling – loans	4,619	6,769
Swiss Francs – overdraft	217	71
	7,339	7,588

The company had a short term loan in place at the 31st December 2010 with the parent company of a major shareholder see note 29.

The fair value of borrowings is not significantly different to carrying value. On 10 February 2009 the LIBOR rate payable on certain of the loans was fixed at a rate of 1.78% for two years on £5,253,000 of the loans, the fixed amount diminishing in line with the scheduled repayments over that period. At the balance sheet date £2,895,000 of the loans was on that fixed rate. The remainder were floating rate, at a margin of 3.5% over LIBOR.

18. Trade And Other Payables

	2010 £'000	2009 £'000
Trade payables	13,076	9,314
Social security and other taxes	1,264	2,360
Accruals and deferred income	2,691	2,524
	17,031	14,198

Creditor days as at 31 December 2010 were 114 days (2009: 76 days). The Directors consider that the carrying amount of trade payables approximates to their fair value. Of the trade creditors outstanding at the year-end that were denominated in foreign currencies was £351,000 (2009: £1,540,000) principally in Euros.

19. Provisions

	Warranty Provision £'000	Onerous Contracts £'000	Other Provisions £'000	Total Provisions £'000
At 31 December 2009	4,125	80	-	4,205
Additional provision	1,200		-	1,200
Utilisation of provision	(2,480)	(56)	-	(2,536)
At 31 December 2010	2,845	24	-	2,869
Under One Year Provision	1,245	24	-	1,269
Over One Year Provision	1,600	-	-	1,600
At 31 December 2010	2,845	24	-	2,869

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.

20. Obligations Under Finance Leases

	Minimum lease payments 2010 £'000	Present value of lease payments 2010 £'000	Minimum lease payments 2009 £'000	Present value of lease payments 2009 £'000
Amounts payable under finance leases:				
- within one year	23	18	35	31
- two to five years	24	17	44	32
	47	35	79	63

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.

21. Deferred Tax

At the reporting date, the Group has unused tax losses of £26,287,000 (2009: £18,975,000) available for offset against future profits. A deferred tax asset of £7,104,000 at tax rate of 26% (2009: £5,313,000 at 28%) has not been recognised in respect of these losses due to the unpredictability of future profit streams.

Notes To The Consolidated Financial Statements (continued)

for the year ended 31 December 2010

22. Share Capital – Group

	No.	£
Issued and fully paid shares capital: ordinary shares of 1p each		
As at 31 December 2008	108,459,811	1,084,598
Shares issued in the year	123,957,142	1,239,572
As at 31 December 2009	232,416,953	2,324,170
Shares issued in the year	149,728,540	1,497,285
As at 31 December 2010	382,145,493	3,821,455

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

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

On 21 January 2010, 37,010,712 new shares were issued at a price of 6p via a placing. Each placee received the promise of one warrant for each new share subscribed, exercisable at the price of 6p per warrant for a period of up to 24 months after issue. On 20 August 2010, 112,727,828 new shares were issued via the exercise of warrants and a placing at 5p per share. Subsequent to the year-end 370,000,000 new shares were issued at a price of 2p via a placing.

23. 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 £266,000 (2009:£ 279,000) represents contributions payable to these schemes by the Group at rates specified in the rules of the schemes. As at 31 December 2010, contributions of £ 35,000 (2009:£ 87,000) due in respect of the current reporting year had not been paid over to the schemes.

24. 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. If options remain unexercised after a period of 10 years from the date of grant, the options expire. Furthermore, options may be forfeited if the employee leaves the Group before the options vest, depending on the circumstances.

	2010		2009	
	Options	**Weighted average exercise price**	**Options**	**Weighted average exercise price**
	No. '000	Pence	No.'000	Pence
Outstanding at 1 January	2,250	3.45	-	-
Granted during the year	-	-	2,250	3.45
Outstanding at 31 December	2,250	3.45	2,250	3.45
Exercisable at 31 December	2,250	3.45	2,250	3.45

No options were exercised during the year. The options outstanding at 31 December 2010 had an exercise price between 1p and 4.15p (2009: between 1p and 4.15p), and a weighted average remaining contractual life of 8.5 years (2009:9.5 years).
The fair value of options granted in the year was £nil (2009: £27,000).

25. Operating Lease Arrangements

The Group as a lessee:

Commitments under non-cancellable leases for:

	Group 2010 £'000	**Group 2009 £'000**
Buildings	773	779
Others	325	341
	1,098	1,120

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

	Group 2010 £'000	**Group 2009 £'000**
Amounts due within one year	625	653
Amounts due between one and five years	473	467
	1,098	1,120

Notes To The Consolidated Financial Statements (continued)

for the year ended 31 December 2010

26. Net Cash From Operating Activities

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

	Group 2009 £'000	Group 2008 £'000
Operating activities:		
Loss before tax	(6,513)	(12,012)
Tax	73	-
Adjustments for:		
Share based payments	-	27
Depreciation	1,228	2,287
Amortisation of intangible assets	290	173
Net finance expense	300	262
(Profit) on disposal of fixed assets	12	(23)
Operating cash-flows before movements in working capital	(4,610)	(9,286)
Changes in working capital:		
Decrease in inventories	37	9,045
Decrease in trade and other receivables	(319)	5,354
Increase/(decrease) in trade and other payables	2,833	(6,974)
(Decrease) in provisions	(1,359)	(2,342)
Total decrease in working capital	1,192	5,083
Net cash absorbed in operating activities	(3,418)	(4,203)

27. Restatement Of Comparative Information

Comparative information has been restated by moving £600,000 from cost of sales to administration expenses, to better reflect the classification of certain costs.

28. Post Year End Events

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

29. Related Party Transactions

Key management remuneration are considered to be board directors, see directors emoluments and compensation page 13

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

The parent company of a major shareholder had a loan agreement in place at the year end with an outstanding capital amount of £1,220,000, this short term loan was interest bearing at 8.0% above the Bank of England base rate with £4,152 interest accrued at the year end. The loan is unsecured and repayable within 90days from the 14th December 2010.

30. Contingent Liabilities

There are no contingent liabilities of which the Directors are aware.

Company Balance Sheet

as at 31 December 2010

	Notes	2010 £'000	2009 £'000
Fixed Assets			
Tangible assets	32	2	8
Investments	31	23,794	19,794
		23,796	19,802
Current Assets			
Bank Deposits		5,526	-
Debtors due within one year	33	2,158	4,401
		7,684	4,401
Current Liabilities			
Creditors: amounts falling due within one year	34	15,412	14,316
Net Current Liabilities		(7,728)	(9,915)
Net Assets		16,068	9,887
Capital and Reserves			
Share capital	35	3,821	2,324
Capital reserves	36	31,194	27,056
Share based payment reserve	37	27	27
Retained loss	38	(18,974)	(19,520)
Total Equity		16,068	9,887

The Company's Loss after tax for the year was £1,102,000 (2009:£ 7,626,000).

The financial statements on pages 41 to 44 were approved by the Board of Directors and authorised for issue on 6 May 2011 and are signed on its behalf by:

Mike Dunn FCA
Chief Financial Officer

Company Financial Statements Summary of Significant Accounting Policies

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

Basis Of Preparation

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

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

Under FRS 1 the Company is exempt from the requirement to prepare a cash flow statement on the grounds that a parent undertaking includes the Company in its own published consolidated financial statements.

Taxation

The charge for taxation is based on the profit for the year 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. Impairments are calculated by reference to the expected recoverable amount.

Notes To The Company Financial Statements

for the year ended 31 December 2010

31. Investments

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

	Cost £'000	Impairment £'000	Carrying Value £'000
Optare Group Ltd	17,307	-	17,307
Jamesstan Investments Ltd	6,487	-	6,487
Optare UK Ltd	16,129	(16,129)	-
	39,923	(16,129)	23,794

Details of the Company's subsidiaries at 31 December 2010 are shown in Note 10.

32. Fixed Assets

	Fixtures & Fittings £'000	Total £'000
Cost:		
At 1 January 2010	16	16
Additions	-	-
At 31 December 2010	16	16
Depreciation:		
At 1 January 2010	8	8
Charged during year	6	6
At 31 December 2010	14	14
Net book value as at 31 December 2010	2	2
Net book value as at 31 December 2009	8	8

33. Debtors Due Within One Year

	2010 £'000	2009 £'000
Prepayments and other debtors	304	344
Amounts due from subsidiary undertakings	1,854	4,057
	2,158	4,401

34. Creditors: Amounts Falling Due Within One Year

	2010 £'000	2009 £'000
Overdraft	-	128
Related Party Loan	1,224	-
Trade creditors	595	376
Amounts payable to subsidiary undertakings	13,307	13,307
Social security and other taxes	32	93
Accruals and deferred income	254	412
	15,412	14,316

35. Share Capital – Company

Details of the Company's share capital are disclosed in Note 22

36. Capital Reserves

	Share premium £'000	Merger reserve £'000	Total £'000
As at 1 January 2010	22,620	4,436	27,056
Issue of ordinary share capital (net of expenses)	5,786	-	5,786
Warrants	(1,648)	-	(1,648)
As at 31 December 2010	26,758	4,436	31,194

37. Share based payment reserve

	2010 £'000	2009 £'000
As at start of year	27	-
Charge for year	-	27
Balance as at 31 December 2010	27	27

38. Retained Loss

	2010 £'000	2009 £'000
As at start of year	(19,520)	(11,894)
Net loss for the year	(1,102)	(7,626)
Warrants	1,648	-
Balance as at end of year	(18,974)	(19,520)

THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION.

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

Company Number 06481690

Notice of Annual General Meeting
OPTARE PLC
(the "Company")

Notice of an Annual General Meeting of the Company to be held at the offices of Optare Group Ltd, Manston Lane, Crossgates, Leeds, LS15 8SU at 10:00 am on 17 June 2011, is set out in this document. To be valid, the form of proxy accompanying this document for use at the Annual General Meeting must be completed and returned, in accordance with the instructions thereon, so as to be received by the Company's registrar, Capita Registrars Limited, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU not later than 48 hours before the appointed time of the Annual General Meeting.

OPTARE PLC

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

Directors:

John Matthew Fickling (Non-Executive Chairman)
Jim Sumner (Chief Executive Officer)
David Coulson Stonehouse FCA (Non Executive Director)
Mr R. Seshasayee (Non Executive Director)
Mr V. Venkataraman (Non Executive Director)

Registered Office:

Lower Philips Road
Whitebirk Industrial Estate
Blackburn
Lancashire
BB1 5UD

25 May 2010

To holders of ordinary shares of 1p each in the capital of the Company ("Ordinary Shares")

Dear Shareholder

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

1. Introduction

I am pleased to be writing to you with details of the Company's annual general meeting ("Annual General Meeting" / "AGM") which we are holding at the offices of Optare Group Ltd, Manston Lane, Crossgates, Leeds, LS15 8SU on 17 June 2011 at 10:00 am. The formal notice of Annual General Meeting is enclosed with this document.

If you would like to vote on the resolutions but cannot attend the Annual General Meeting, please fill in the form of proxy enclosed with this document and return it as soon as possible to the Company's registrar, Capita Registrars Limited, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU. The Company's registrar must receive the completed form of proxy by 10:00am on 15 June 2011.

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 accounts and reports before the Company in general meeting.

Ordinary Resolution 2 – Reappointment and Remuneration of Auditor
In accordance with the Companies Act 2006, it is proposed to reappoint Baker Tilly UK Audit LLP as auditor of the Company at the Annual General Meeting and it is normal practice for a company's directors to be authorised to agree the auditor's fees.

Ordinary Resolutions 3, 4 and 5 – Election of Directors
Ramaswami Seshasayee, Venkat Venkataraman and Peter Phillips have each been or are to be appointed to the board of directors of the Company since the last annual general meeting. Under the Company's articles of association, each is required to retire at the AGM and is seeking election.

Mr Seshasayee is the Managing Director of Ashok Leyland. He is also the Executive Vice Chairman of Hinduja Automotive Limited, UK, the holding company of Ashok Leyland. He was appointed to the board in October 2010.

Mr Venkataraman is currently President of Business Development & Strategy for Hinduja Automotive Limited, responsible for Strategy, M&A and Business Development activities of the Hinduja Group's automotive interests based in the UK. He was appointed to the board in May 2011.

Mr Phillips is to join the Company as Chief Financial Officer from Tesla Motors, the NASDAQ quoted, electric car manufacturer, where he has been the European Finance Director. Prior to joining Tesla in April 2010, Mr Phillips had spent 22 years at General Motors. He is to be appointed to the board in June 2011.

Special Resolution 6 – Authority to Allot Shares and Disapplication of Pre-emption Rights
A special resolution is proposed which will allow the directors of the Company to grant options over shares and/or other rights to subscribe for shares in the Company to directors or employees (including non-executive directors) of the Company and its subsidiaries up to a maximum nominal value of £121,000 which represents approximately 1.6% of the Company's current issued share capital. In addition, this resolution will give the directors power, when shares are issued pursuant to such options or rights to subscribe, to allot an equivalent number of shares to Ashok Leyland at the same issue price as those so issued.

3. Action to be taken

You are entitled to appoint one or more proxies to attend and vote at the Annual General Meeting on your behalf. You will find enclosed with this document a form of proxy for use in connection with the Annual General Meeting. Whether or not you propose to attend the Annual General Meeting in person, you are requested to complete and return the form of proxy to the Company's registrar, Capita Registrars Limited, The Registry, 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 15 June 2011. 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

Notice is given that the Annual General Meeting of the Company will be held at the offices of the Optare Group Ltd, Manston Lane, Crossgates, Leeds, LS15 8SU on 17 June 2011 at 10:00 am for the following purposes:

Ordinary Business

To consider and, if thought fit, to pass the following resolutions as Ordinary Resolutions of the Company:

1. That the directors' report and accounts for the period ended 31st December 2010 together with the reports of the directors and auditors thereon be approved and adapted.

2. That Baker Tilly UK Audit LLP be appointed as auditor of the Company and that the directors of the Company be authorised to determine its remuneration.

3. That Ramaswami Seshasayee be elected as a director of the Company.

4. That Venkatesan Venkataraman be elected as a director of the Company.

5. That Peter Phillips be elected as a director of the Company.

Special Business

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

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

6.1 the grant of rights to subscribe for shares in the Company to directors and employees of the Company and its subsidiaries (on and subject to such terms and conditions as the directors may see fit) up to an aggregate nominal amount of £121,000 and the allotment for cash of shares in the Company following the exercise of such rights to subscribe; and

6.2 on the allotment of any shares in the Company following the exercise of the rights to subscribe referred to in paragraph 6.1 above, the allotment to Ashok Leyland Limited for cash of a number of shares in the Company equal to that number of shares allotted pursuant to paragraph 6.1 at an issue price equal to that at which the shares allotted pursuant to paragraph 6.1 were so allotted, up to an aggregate nominal amount of £121,000,

and further provided that such authority and power shall expire on the date of the next annual general meeting after the passing of this resolution; for the purposes of paragraph 6.1 above, the nominal amount of any rights to subscribe for shares of the Company shall be the nominal amount of such shares which may be allotted pursuant to such rights.

By Order of the Board

James Sumner
Director

Registered Office:
Lower Philips Road,
Whitebirk Industrial Estate,
Blackburn,
Lancashire,
BB1 5UD

25th May 2011

Notes:

Entitlement to Attend and Vote

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

1.1 6:00pm on 15 June 2011; or

1.2 if this meeting is adjourned, at 6:00pm 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 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. Appointment of Proxies

2.1 If you are a member of the Company at the time set out in 1.1 or 1.2 above, you are entitled to appoint a proxy to exercise all or any of your rights to attend, speak and vote at the meeting (whether on a show of hands or on a poll) and you should have received a proxy form with this notice of meeting. You can only appoint a proxy using the procedures set out in these notes and the notes to your proxy form.

2.2 You may appoint more than one proxy provided each proxy is appointed to exercise rights attached to different shares. You may not appoint more than one proxy to exercise rights attached to any one share.

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

2.3.1 completed and signed;

2.3.2 sent or delivered to Capita Registrars Limited, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU; and

2.3.3 received by Capita Registrars Limited no later than at 10:00 am on 15 June 2010 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.

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

3. Attending in Person

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.

4. Documents on Display

Copies of the non-executive directors' terms of appointment with the Company or any of its subsidiary undertakings will be available:

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

4.2 during the meeting.

Company Number 06481690
OPTARE PLC
(the "Company")
Form of Proxy

I/We ____________________ of ____________________

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

____

as my/our proxy to attend and vote for me/us on my/our behalf at the Annual General Meeting of the Company to be held at 10:00am on Friday 17 June 2011 and at any adjournment of it.

I/We direct my/our vote to be cast as indicated below in respect of the resolutions which are referred to in the Notice convening the Meeting (see note 1 below).

Resolutions	**For**	**Against**	**Withheld**
Ordinary Resolutions			
1. To approve and adopt the directors' report and accounts for the period ended 31st December 2010 and the reports of the directors and auditors thereon			
2. To reappoint Baker Tilly UK Audit LLP as auditor of the Company and authorise the directors to fix its remuneration			
3. To elect Ramaswami Seshasayee as a director			
4. To elect Venkat Venkataraman as a director			
5. To elect Peter Phillips as a director			
Special Resolution			
6. To authorise the directors to allot shares			

Signature ____________________ Date ____________________

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

Number of shares proxy appointed over. ☐

Notes

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

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

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

4. Entitlement to attend and vote at the meeting and the number of votes which may be cast at the meeting will be determined by reference to the Register of Members of the Company at 6:00pm on 15 June 2011 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 over must arrive at Capita Registrars Limited, 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 15 June 2010.

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