Optare plc
Annual report and accounts 2017

ASHOK LEYLAND

Working in close partnership with bus operators to create comfortable and stylish buses that enhance the passenger experience.

Optare has almost a century of expertise in using the latest technologies in bus design and manufacturing to deliver the vehicles of today and tomorrow.

Metrodecker
Type: Double deck
Length: 10.5–11.1m
Engine solution: Euro 6, electric

Tempo
Type: Full size single deck
Length: 12.5m
Engine solution: Euro 5

Versa
Type: Midi-bus
Length: 10.4–11.7m
Engine solution: Euro 6, electric

Metrocity
Type: Midi-bus
Length: 10.1–11.5m
Engine solution: Euro 6, electric

OPERATIONAL HIGHLIGHTS

- Continued improved customer brand perception through new aftermarket structure and extensive quality campaigns.
- A renewed demand for the Versa model, accounting for a quarter of overall sales in 2016/17.
- Development of an extended range Metrocity electric bus – designed to carry out a day's service without the need to opportunity charge.
- Development of the Metrodecker EV (electric double deck).
- Development of the Metrocity xFE.

FINANCIAL HIGHLIGHTS

- Revenue for the period was £35.0m, a drop of 8.7% over prior year.
- There were exceptional costs of £13k in this year's accounts (2015/16: £0.7m).
- Gross profit was £2.7m (representing 7.7% of turnover) over the twelve-month period (2015/16: £3.4m representing 9% of turnover).
- Loss after tax was £15.7m (including a £4.3m impairment of goodwill) (2015/16: £9.3m).
- Operating cash outflow before working capital changes was £6.4m (2015/16: £6.3m).
- Loss per share was 0.7p (2015/16: loss was 0.4p).

Solo
Type: Mini-bus
Length: 7.2–9.9m
Engine solution: Euro 6, electric

Read our President's report on pages 3 and 4

Visit our website for the latest investor news and information: www.optare.com

Continued focus on long-term growth and evolution

"We remain focused on delivering a high quality, innovative product with class-leading support that delivers the best possible whole life cost for our customers as well as enhancing the experience of bus travel for passengers."

John Fickling, Non-executive Chairman

Introduction

2016/17 has been a year of continued focus on long-term growth and evolution for Optare. Some of the major successes for the year include:

- continued improved customer brand perception through new aftermarket structure and extensive quality campaigns;
- a renewed demand for the Versa model, accounting for over a quarter of overall sales in 2016/17;
- development of an extended range Metrocity electric bus – designed to carry out a day's service without the need to opportunity charge;
- development of the Metrodecker EV (electric double deck);
- development of the Metrocity xFE;
- continued investment in demonstration fleet to enable more availability of vehicles for long-term evaluation by customers;
- First York's Optare Versa electric buses collectively reached 1 million km, saving 880 tonnes of CO_2;
- York electric Park & Ride Optare buses received the top award in the Contribution to Sustainable Transport category at the North of England Transport Awards; and
- we continued to work closely with our parent company, Ashok Leyland Ltd, to improve business efficiencies.

Strategic development

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

- increasing sales in the UK through the Metrocity, Metrodecker and electric product;
- continued development of products and commercial relationships for the UK and export markets to drive UK and international expansion;
- continuing to innovate and deliver sustainable green bus technology, with a focus on fuel efficiency and EV technology across the European product range;
- continuing to drive cost reduction and integrate business processes to deliver quality products;
- continued focus on quality improvements, aftermarket delivery and ensuring the best possible whole life cost for our customers; and
- training and development of skills to support the business strategy.

I am pleased to report during the year we have made progress on these key objectives despite a challenging market. Particular progress has been made in the development of export sales, including the appointment of a new dealer in Australasia, who has already secured several orders and an order from Hong Kong for demonstrator vehicles.

Our customers

We remain focused on delivering a high quality, innovative product with class-leading support that delivers the best possible whole life cost for our customers, as well as enhancing the experience of bus travel for passengers. Our work to improve customer care in the aftermarket is also starting to pay dividends with several repeat orders from groups and large independent operators in 2016/17.

Our people

During the year we continued to invest in a programme of training to enhance skills and support the business strategy.

Once again, I would like to thank our workforce for their dedication, commitment and support in delivering the strategic objectives of the Company in a challenging marketplace. Lastly, I would like to thank the shareholders and our bankers for their continuing support.

Strategic focus for 2017/18

In summary, our strategy for 2017/18 will focus on:

- increasing sales in the UK through the Solo, Versa, Metrocity and Metrodecker, with a specific focus on electric product;
- continued development of products and commercial relationships for the UK and export markets to drive UK and international expansion;
- continuing to innovate and deliver sustainable green bus technology, with a focus on fuel efficiency and EV technology across the product range;
- continuing to drive cost reduction and integrate business processes to deliver quality products;
- continued focus on quality improvements, aftermarket delivery and ensuring the best possible whole life cost for our customers;
- continued training and development of skills to support the business strategy; and
- continued integration with Ashok Leyland Ltd to deliver export opportunities and material savings.

John Fickling
Non-executive Chairman
27 July 2017

Another important year for Optare

> "Overall the Board expects progress in 2017/18 to be towards a more robust performance, with growth in export sales and increased electric bus sales driven by air quality measures in UK cities."
>
> **Graham Belgum,** President

The market

2016/17 was a challenging year for the bus industry with reduced subsidy funding for bus services leading to overall sales in the UK bus market to contract by 8% in contradiction to the predicted 6% growth. This reduction was primarily driven by the single deck segment (38% decrease from the previous year), while the double deck segment grew slightly (27% increase from the previous year, the majority due to London's Low Emission Zone hybrid requirements). Optare was only present in the single deck segment in 2016/17 but managed to maintain market share and is now the second largest manufacturer of single deck buses for the UK, despite overall volumes in the industry decreasing.

Optare's performance

Optare posted overall sales of 200 single deck vehicles in 2016/17, including a number of export sales. The global turnover decreased from £38.3m to £35.0m. Loss after tax was £15.7m (including a £4.3m impairment of goodwill). This can be attributed to a combination of factors which include a contracted market; historical customers placed into administration; the cumulative effect of an absence of government funding for electric buses over the last three years; a multimillion pound investment in customer service and the aftermarket; and investment in product development.

The Solo remains a firm favourite, accounting for the majority of sales in 2016/17, followed by a comeback from the Versa, accounting for over a quarter of sales. The Metrodecker demonstrators continue extensive in-service programmes with both group and retail customers with orders expected in 2017/18.

Development

During 2016/17 our strategic focus has been to continue to deliver improvements in both aftermarket and manufacturing, grow market share, retain our core capabilities in a challenging marketplace and develop opportunities for export sales in international markets.

Investment in product development included the electric Metrodecker, extended range Optare Metrocity EV and Euro 6 slimline Solo models.

2016/17 saw Optare's work to improve customer care in the aftermarket and build relationships bear fruit with several repeat orders from groups and large independent operators, as well as the winning of a seven-year maintenance contract for a major Northern transport provider.

The period also saw the successful development of new dealer relations in Australia and New Zealand, and the Company's integration with our parent company, Ashok Leyland Ltd, continued to deliver sales opportunities in international markets.

Financial performance

The financial results for the year show a net loss of £15.7m compared to a loss of £9.3m in the previous period because of a drop in volumes and spend on aftermarket quality campaigns.

The key highlights for the period end are:

- Revenue for the period was £35.0m, a drop of 8.7% over prior year.
- There was a small amount of exceptional costs of less than £0.1m in this year's accounts (2015/16: £0.7m).
- Gross profit was £2.7m (representing 7.7% of turnover) over the twelve-month period (2015/16: £3.4m representing 9% of turnover).
- Loss after tax was £15.7m (including a £4.3m impairment of goodwill) (2015/16: £9.3m).
- Operating cash outflow before working capital changes was £6.4m (2015/16: £6.3m).
- Loss per share was 0.7p (2015/16: loss was 0.4p).

Outlook

We start 2017/18 with an order book reflective of the UK market conditions; however, many tender results are still to be announced.

A new Transport Knowledge Hub jointly funded by the Department for Transport and Greener Journeys will provide local decision makers with the tools and information to make economically effective transport investment decisions and we believe will be instrumental in tackling issues such as congestion and increasing numbers of bus passengers. However, these measures will take time to take effect so we expect that the UK bus market will remain relatively flat in 2017/18 and therefore Optare's focus will be on continuing to grow market share with the support of Ashok Leyland Ltd through EV product and export.

In 2017/18 the Metrodecker EV will be introduced to the market and Optare will develop further the range of our EVs using higher density battery technology whilst still staying true to our philosophy of building lightweight efficient vehicles with maximum passenger capacity that comply with current weight restrictions in the UK.

Outlook continued

The Company's green vehicle strategy is supported by the government's air quality strategy, which proposes Clean Air Zones for Birmingham, Leeds, Nottingham, Derby and Southampton by 2020, and Transport for London's plans for 300 single deck electric buses to be in service in London to meet the requirements of the Ultra Low Emission Zone now proposed to commence in April 2019 instead of 2020. The Mayor of London has also indicated proposals to expand the size of the Ultra Low Emission Zone into Greater London.

We expect to maintain market share in the single deck diesel market and break into the double deck market with the Metrodecker.

Brexit has had some impact on the business with regards to materials sourced from Europe; however, the impact on the exchange rate has improved our export prospects and we expect this to be an area of growth for Optare in the coming year. Ashok Leyland Ltd continues to support the Company with materials sourcing and procurement.

Recent developments in the export market include an order from Hong Kong for Solo demonstrators to prove themselves as a replacement to mini-buses as the low floor, wheel-forward design of the Solo allows easier access and greater accessibility for wheelchair users and people with disabilities. If the demonstration is successful a significant order will follow. We are also developing a similar opportunity for the introduction of the Solo into Singapore.

Other export developments include the appointment of a new dealer in Australasia to strengthen the Optare presence and support the expansion of the brand. The new dealer has already secured several orders.

Optare is also developing several dealer opportunities in the Middle East.

Quality campaigns in both production and the aftermarket will continue to focus on proactively identifying improvements. We will also continue to engage our customers in a dialogue with regards to customisation, achieving best whole life cost and future specifications that enhance the passenger experience as part of our long-term product development planning.

Overall the Board expects progress in 2017/18 to be towards a more robust performance, with growth in export sales and increased electric bus sales driven by air quality measures in UK cities.

Graham Belgum
President
27 July 2017

See our annual highlights on pages 7 to 14

See our corporate governance on page 17

Continued integration with Ashok Leyland Ltd

2016/17 has seen continued support and integration with our parent company, Ashok Leyland Ltd, including:

- additional investment in Optare to support both growth and development plans;
- management support and collaboration at all levels of Ashok Leyland Ltd with the implementation of Optare's business plans; and
- strategic positioning of the businesses through further alignment of Optare's procurement and engineering functions with Ashok Leyland Ltd.

Left to right: Venkatesan Venkataraman, President of Business Development and Strategy, Hinduja Automotive, and Dheeraj Hinduja, Chairman, Ashok Leyland Ltd, with Graham Belgum, President, Optare, and Hariharan Krishnamurthi, Chief Financial Officer, Optare, during a visit to Optare in March 2017.

Our mission is to drive the future of our business and that of our customers

We continually assess the quality of our business model through measuring its effectiveness and searching for opportunities for improvements.

Our business model is based around our core values of customer focus, innovation, team spirit and excellence.

Customer focus
Developing partnerships with our suppliers and customers.

Innovation
Continuously improving product designs, performance, reliability and aftermarket services.

Team spirit
The training and development of employees. We recognise that quality is the responsibility of every employee, extending from the Board of Directors, and it is the duty of all employees to ensure that these commitments are fulfilled.

Excellence
Building and maintaining the management system through regular reviews to continuously improve.

The leadership and engagement of our people and their development are the key principles of the future Optare plc

PEOPLE DEVELOPMENT

2016/17 has seen considerable fluctuations in production volumes, which has reinforced the need for flexibility of resource in working hours and utilisation of skill across all areas. In response, colleagues in Production and Stores have supported multiskilling and have taken on a broader range of work activities to achieve the plan and deliver orders to time and to the high quality standard expected of us.

We are extremely proud of our apprentices, three (Nathan Brown, Nikki Kerrigan and Jake Stubbs) of whom have completed their Level 3 qualifications in Bodybuilding and have accepted permanent employment with us.

A seven-year maintenance contract for a major Northern transport provider has secured the employment of additional Field Service Engineers in Manchester, and we are pleased to support the appointment of an apprentice at the Service Centre from September 2017.

Our support for personal development continues with 19 employees progressing into their second year of their National Vocational Qualification (NVQ) in Operations, and the opportunity to achieve a range of NVQ Levels has more recently been extended to support functions and leadership roles, where 25 colleagues from across all areas have signed up to this commitment. We are working in partnership with Unite the union, offering functional skills in Maths and English and basic IT to employees under our National Learning Agreement.

ENVIRONMENT AND SUSTAINABILITY

As part of Optare's continued commitment to environment and sustainability, 2016/17 saw the launch of Project OPUS to engage the workforce in identifying process improvements and initiatives to further enhance quality and remove all forms of waste.

OPUS continues to be a success, delivering many initiatives which have helped to deliver process efficiencies, tackle waste and enhance overall quality.

Our product milestones

OPTARE METROCITY ACHIEVES IMPRESSIVE REAL-WORLD OPERATION WITH FIRST BUS

In January 2017 the Metrocity 11.5m Euro 6 demonstrator vehicle completed a very successful real-world trial with one of the UK's largest operators, First Bus. The trial saw Optare's Metrocity put through its paces operating on the high frequency Red Arrow services 521, 522 and 523, from Halifax to Ovenden and Illingworth (north of Halifax).

Our product milestones continued

1

MEMBERS OF THE HOUSE OF LORDS EU INTERNAL MARKET SUB-COMMITTEE VISIT MILLBROOK ON OPTARE ELECTRIC BUS

In June 2016, members of the House of Lords EU Internal Market Sub-Committee visited Millbrook's vehicle testing facility in Bedfordshire.

Arriving in an extended range electric Solo bus provided by Optare, peers met the CEO of Millbrook Group, Alex Burns, and took a tour of Millbrook's vehicle emissions testing laboratory and test track.

2

METRODECKER STARTS REAL-WORLD OPERATION WITH FIRST BUS

In June 2016, the pre-production 11.1m Metrodecker demonstrator vehicle commenced a series of extensive trials with UK operator First Bus. Optare's new double deck was put through its paces operating on route X78 from Sheffield to Doncaster. The X78 route is a service route used by First Bus for extensive testing of all the major bus manufacturers' vehicles.

3

OPTARE PRESENTS NEW OPTARE METROCITY XFE WITH ALLISON'S EXTRA FUEL-SAVING TRANSMISSION AT EURO BUS EXPO 2016

Optare presented a new Metrocity xFE midi-bus to the industry on its stand at Euro Bus Expo 2016 (1–3 November, NEC, Birmingham), following a successful trial of a Euro 6 bus featuring an Allison xFE transmission with a FuelSense® Max software package. Independent testing saw the xFE-equipped Metrocity deliver an 8% improvement in fuel economy.

4

OPTARE FULLY ELECTRIC DOUBLE DECK LAUNCHED AT EURO BUS EXPO 2016

Optare celebrated the launch of the Metrodecker EV prototype at an unveiling ceremony at Euro Bus Expo 2016 at the NEC in Birmingham. The Metrodecker EV will go into service in Central London with Go-Ahead London in summer 2017 to prove the concept and provide operational feedback to aid further development. Optare is working on more developments to the vehicle to increase the range in production vehicles further still.

5

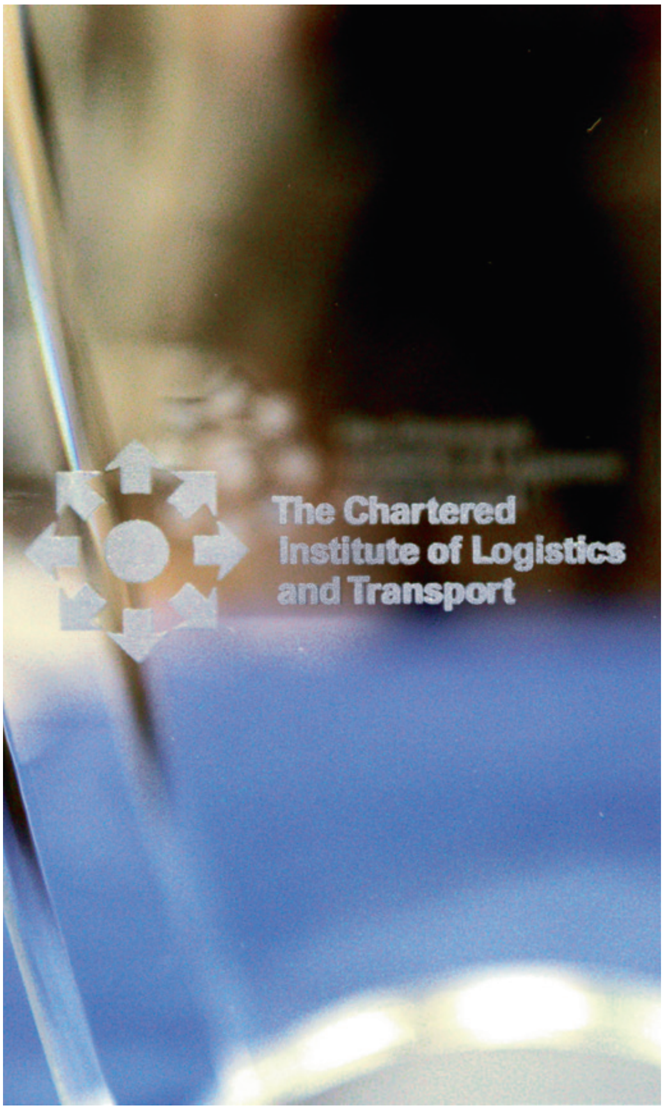
OPTARE METRODECKER SUCCESS AT GO-AHEAD LONDON

In March 2017, the pre-production 10.5m Transport for London specification Metrodecker demonstrator completed a successful trial with Go-Ahead London. The Optare double deck was put through its paces operating on routes from Go-Ahead's Bexleyheath bus garage. The vehicle received very positive feedback from the 95 different drivers who drove the vehicle in service, with the majority reporting that it was a great product with a clear view of the road ahead. Customers were also very complimentary of the vehicle's comfort and design.

Industry memberships

OPTARE BECOMES CILT CORPORATE MEMBER

The Chartered Institute of Logistics and Transport (CILT) UK president, Beverley Bell, presented members, including Optare, with their plaques and urged all corporate members to work with the Institute to tackle the challenges that the industry is currently facing.



6

OPTARE METROCITY EV TRANSPORTED BY DESIGN

In July 2016, the Optare Metrocity EV took part in the Transported by Design cavalcade on Regent Street organised by Transport for London and the London Transport Museum.

Electric bus achievements

7

INNOVATION ALLOWS STAGECOACH ELECTRIC VEHICLES TO RUN FOR LONGER

In July 2016, Stagecoach became the first UK bus operator to implement an innovative modification to its electric vehicles which allows them to run for longer in between charging sessions.

The company, which operates six Optare Solo EV buses in Inverness, has worked with Optare to extend the battery range of the vehicles so they can now cover up to 130 miles before needing to be charged, compared to the previous range of up to 95 miles.

8

OPTARE FULLY ELECTRIC BUS FLEET IN SCOTLAND SHORTLISTED FOR TWO AWARDS

The first fleet of fully electric buses to be used in Scotland was shortlisted for two separate awards. The new Optare Solo EV buses, branded Inverness Electricity and operated by Stagecoach, have been shortlisted by the Scottish Transport Awards for Contribution to Sustainable Transport as well as Most Innovative Transport Project.

Electric bus achievements continued

10

9

11

9

OPTARE SHORTLISTED FOR NATIONAL TRANSPORT AWARD

In July 2016, Optare was shortlisted for Transport Supplier of the Year by the National Transport Awards judging committee for its latest innovation, the extended range Solo EV bus.

10

FIRST YORK'S OPTARE VERSA ELECTRIC BUSES COLLECTIVELY REACH 1 MILLION KM, SAVING 880 TONNES OF CO_2

In September 2016, First York's Optare Versa electric buses collectively reached 1 million km, saving 880 tonnes of CO_2 emissions, compared to a diesel bus.

11

YORK ELECTRIC PARK & RIDE OPTARE BUSES PRAISED AT NORTHERN AWARDS

In December 2016, First York's Optare Versa electric buses, which serve two York Park & Ride sites, received the top award in the Contribution to Sustainable Transport category at the North of England Transport Awards.

Customer highlights

12

SPT INVESTS IN FIVE MORE OPTARE SOLOS

In April 2016 Strathclyde Partnership for Transport (SPT) purchased a further five Optare Solos to be used on various subsidised local bus services across the area, including on the demand-responsive MyBus service. This followed an investment in 23 Solos in 2015.

13

14 OPTARE LOW-CARBON SOLO BUSES FOR GO NORTH EAST

Go North East added another 14 low-carbon Optare Solos to their fleet in April 2016. Go North East is the North East of England's largest bus company, operating a fleet of nearly 700 buses and coaches, and employing more than 2,100 people. Over a quarter of the Go North East single deck fleet are Optare vehicles. These fleet additions brought the number of Optare Solos in the Go North East fleet to 56, which accounts for almost 70% of the overall Go North East mini-bus fleet.

14

TRANSDEV INVESTS £4M IN NEW OPTARE BUSES

In June 2016 Transdev took delivery of 28 single deck Optare Versa and Solo buses, featuring the latest on-board technology. Not long after, the vehicles entered service across Yorkshire and Lancashire close to where they were designed and manufactured in Sherburn in Elmet.

Customer highlights continued

ANOTHER 40 OPTARE BUSES FOR TRANSLINK

In April 2017, the first eight of an order of 27 Optare Versas and 13 Optare Solos were delivered to Translink. Ulsterbus passengers in the Craigavon area benefited from the introduction of eight new modern buses to the local fleet operating on the high frequency route between Lurgan and Portadown. This purchase follows an order for 40 buses delivered in 2014.

We have a robust management system in place to monitor and assess the Group risks

The Audit Committee is responsible for reviewing the Group's internal financial controls and risk management systems and processes to limit the exposure to the below key risks.

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

Key risk	Mitigating activities
Changes in legislation	Legislative changes may require investment in new product developments or adaptations which will incur cost. Design changes are regularly made to address legislative changes well ahead of their legal introduction.
Decrease in market demand	The Group operates in a market where there are a number of competitors whose actions may affect the level of turnover of the Group. Market demand, whilst underpinned by strong long-term drivers, may fluctuate over the short to medium term. The Board is actively pursuing a policy to decrease the dependency on the UK market by increasing focus on export markets.
Introduction and production of new technologies	The introduction and start-up of production of new technologies, such as EV technology, carries a technical and execution risk. The Group continually works with major global suppliers to evaluate new technological developments and how best to improve designs, introduce them into products and incorporate them into assembly production.
Supply chain	The Group is currently dependent upon key suppliers to ensure continuity of production. Interruption of such supply may have a detrimental effect on the Group's revenue stream and resultant operating results. Common sourcing strategies are being pursued with Ashok Leyland Ltd to reduce the dependency on any one supplier.
Customer relationships	The Group continues to trade with a number of customers, the future business of which cannot be guaranteed beyond the terms and conditions of existing contracts as referred to by separate disclosure. Significant effort is put into maintaining and developing Optare's long-term reputation with both existing customers and new customers.
Impact of the UK leaving the EU ("Brexit")	Brexit alone presents both challenges and opportunities with regards to legislation, supply chain, the UK market and the export market. The Group continues to monitor and act accordingly to mitigate risks and capitalise on opportunities as they arise.

Credit, liquidity, foreign currency and cash flow risks are discussed within the consolidated financial statements' summary of significant accounting policies.

A strong team focused on delivering growth

JOHN FICKLING

(Independent Non-executive Chairman)

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

VENKATARAMAN THYAGARAJAN

(Non-executive Director, resigned 1 June 2017)

Venkataraman is currently the head of the global bus business of Ashok Leyland Ltd, Optare plc's parent company. Venkataraman is a mechanical engineer and holds a master's degree in industrial management. Venkataraman has 34 years' experience in the automotive industry and started his career in 1981 with various organisations such as Suhail Bahwan Group, Saud Bahwan Group, Amalgamations Group, McNeil & Magon and Enfield Motors. Venkataraman was a Professor at NITIE, Mumbai, for three years and has four publications to his credit. Venkataraman joined Ashok Leyland Ltd in April 2010 and is responsible for the global bus business. He is a director of Ashok Leyland (UAE) LLC and Irizar TVS Ltd.

ANUJ KATHURIA

(Non-executive Director, resigned 9 June 2017)

An engineering graduate from BITS and an MBA from XLRI, Jamshedpur, Anuj brings a wealth of experience across multiple functions including manufacturing, sourcing, mergers and acquisitions and programme management. He also undertook a two-year overseas assignment as head of global sourcing. With Ashok Leyland Ltd since 2010, he heads the strategic sourcing and supply chain and is responsible for all supply chain activities, including bringing synergistic benefits to Optare plc's material sourcing and cost.

STEVEN NORRIS

(Independent Non-executive Deputy Chairman)

Steven started his career in the engineering and motor industries, entering into politics in 1977, when he was elected to Berkshire County Council. In 1983 he became the Member of Parliament for Oxford East and subsequently held various parliamentary positions until 1992, when he became the Parliamentary Under-Secretary of State for Transport and Minister for Transport in London. Steven was responsible for the Jubilee line extension, the largest extension of the London Underground network to date. Steven is widely known for his interest in public transport. He possesses a wealth of experience and is either currently, or has previously held roles as, chairman of the National Cycling Strategy Board, director general of the Road Haulage Association, president of the Motorcycle Industry Association, a commissioner of the Independent Transport Commission, and a patron of the cyclists' charity Sustrans and of the Campaign for Better Transport Charitable Trust. Steven holds an MA in Jurisprudence from the University of Oxford.

GOPAL MAHADEVAN

(Non-executive Director)

Gopal is currently CFO of Ashok Leyland Ltd. Gopal is a chartered accountant and a company secretary with over 25 years' experience in finance functions across a variety of industries. He started his career with the TTK Group and then moved to Sanmar Group, where he progressed to head of finance for their PVC business. He later joined Sify Limited to head mergers and acquisitions, legal and Nasdaq compliances, following which he joined Amara Raja Batteries as group CFO. Prior to his appointment at Ashok Leyland Ltd, Gopal was CFO of engineering company Thermax Limited. On his appointment as a Non-executive Director, Gopal became Chairman of the Audit Committee.

VENKATESAN VENKATARAMAN

(Non-executive Director)

Venkatesan is currently president of business development and strategy for Hinduja Automotive Limited, responsible for strategy, M&A and business development activities of the Hinduja Group's automotive interests based in the UK. Starting as a graduate engineer at Ashok Leyland Ltd, he has over 30 years' experience in industrial engineering, business and corporate planning functions. He led the Ashok Leyland Ltd negotiations for its initial stake and, subsequently, its increased stake in Optare plc.

SESHU BHAGAVATHULA

(Non-executive Director, appointed 27 June 2017)

Seshu joined Ashok Leyland Ltd in 2016 as chief technology officer and spearheads the company's global initiatives on research and new product development for commercial vehicles, buses and light commercial vehicles. Seshu is an experienced hand in the automotive industry, both in commercial and passenger vehicle segments, with his core areas of professional expertise being in research and development, innovation and strategic analysis. Seshu holds a doctorate in high frequency electronics and an advanced postgraduate diploma from the Space Sciences and Applications Centre. Before joining Ashok Leyland Ltd, he was associated with Great Wall Motor Company in China, where he served as the vice president of research and development. Prior to this, he had spent a significant part of his career with Daimler AG at multiple locations, where he was responsible for product development and integration of engineering processes. In addition, Seshu was a founding managing director of Mercedes-Benz Research and Development Center in India between 1996 and 2000.

The Company is committed to high standards of corporate governance

The Board is accountable to the Company's shareholders for good corporate governance.

Principles of corporate governance

The Company is committed to high standards of corporate governance. The Company has regard to the main principles of the Financial Reporting Council's UK Corporate Governance Code 2014.

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

Board structure

Following Ashok Leyland Ltd and its associated companies' increase to 75.1% of the shares in the Company in January 2012, the Board has evolved to a structure of an independent Non-executive Chairman, an independent Non-executive Deputy Chairman and a minimum of three Ashok Leyland Ltd-nominated Non-executive Directors.

Directors' dates of appointment and resignations during the year and post year end are detailed in the Directors' report.

Key management is considered to be the Board of Directors and members of the Steering Committee (SC), which includes the President and the Chief Financial Officer. The transactions with key management are described in the Directors' and Senior Officers' remuneration report.

Role of the Board

The Board is responsible to shareholders for the proper management of the Group. The Non-executive Directors have a particular responsibility to ensure that the strategies proposed by the Senior Officers 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 seven separate occasions in the year.

Appointment and induction of Directors

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

Board Committees

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

Remuneration Committee

The Remuneration Committee comprises the Non-executive Chairman John Fickling (Chairman) and Non-executive Director Venkatesan Venkataraman. The Remuneration Committee determines and agrees with the Board the framework of remuneration for the Senior Officers. The Board itself determines the remuneration of the Non-executive Directors. There was no Remuneration Committee meeting held during the year. The report on Directors' remuneration is set out on pages 18 to 19.

Audit Committee

The Audit Committee comprises Non-executive Director Gopal Mahadevan (Chairman) and the Non-executive Chairman John Fickling.

The Audit Committee is responsible for:

- reviewing the scope of external audit and receiving regular reports from KPMG LLP;
- reviewing the half-year and annual accounts prior to their recommendation to the Board;
- reviewing the Group's internal financial controls and risk management systems and processes;
- making recommendations on the appointment, re-appointment and removal of the external auditor and approving the terms of engagement;
- reviewing the nature of the work and the level of fees for non-audit services provided by the external auditor; and
- assessing the independence, objectivity and effectiveness of the external auditor.

The Committee met on two occasions during the year and the meetings were fully attended.

Meetings are also attended, by invitation, by the Chief Financial Officer, the President and the principal auditor from Optare plc's auditor KPMG LLP.

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 is 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. Private investors are encouraged to participate in the annual general meeting, at which the Non-executive Chairman presents a review of the results and comments on current business activity. Members of the Audit and Remuneration Committees will be available at the annual general meeting to answer any shareholder questions.

Going concern

The Directors confirm that they are satisfied that the Company and the Group have adequate resources to continue in business for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements. Further disclosures are made on page 29.

John Fickling
Non-executive Chairman
27 July 2017

Remuneration policy
The policy of the Committee is to reward Directors and Senior Officers in order to recruit, motivate and retain high quality executives within a competitive marketplace.

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

- basic annual salary (including Directors' fees) and benefits;
- annual bonus payments which cannot exceed 30% of salary; 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 Senior Officers also receive certain benefits in kind, principally private medical insurance and a car or car allowance. No pay rises were awarded during the year.

Annual bonus
The purpose of the annual bonus is to reward the Senior Officers and other senior management for achieving above average performance compared to appropriate industry targets, which would also benefit shareholders. Incentive payments for the year ended 31 March 2017 totalled £nil (2015/16: £nil).

Share option incentives
Following a review of the long-term incentives offered by the Company it has been decided that share options will not be offered as part of remuneration packages for Directors. In the year ended 31 March 2017, no share options were issued (2015/16: nil). The exercise of the outstanding options is not dependent on performance criteria, but options are subject to a two-year lock-in period from the date of issue.

Pension arrangements
The Senior Officers are members of a money purchase pension scheme to which the Group contribution ranges from 6% to 10% of salary and bonuses. No other payments to Directors are pensionable.

Senior Officers' contracts
It is the Company's policy that the Senior Officers should have a contract with an indefinite term providing for a range of three to six months' notice. In the event of early termination, the Senior Officers' contracts provide for compensation up to a maximum of basic salary for the notice period.

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

Directors' emoluments and compensation

	Salary £	Benefits £	Bonuses £	Other £	**2016/17 Total £**	2015/16 Total £
Executive Directors						
Enrico Vassallo (until 19 October 2015)	–	–	–	–	**–**	139,064
Non-executive Directors						
John Fickling	50,000	–	–	–	**50,000**	50,000
Anuj Kathuria	–	–	–	–	**–**	–
Gopal Mahadevan	–	–	–	–	**–**	–
Venkatesan Venkataraman	–	–	–	–	**–**	–
Venkataraman Thyagarajan	–	–	–	–	**–**	–
Steven Norris	24,000	–	–	–	**24,000**	24,000
Total	74,000	–	–	–	**74,000**	213,064

Key management incorporates the Board of Directors and members of the Steering Committee (SC). Total emoluments and compensation for the SC consists of £472,724 for the year ended 31 March 2017.

Directors' share options

	Options at 31 March 2016	Options granted in year	Options forfeited in year	**Options at 31 March 2017**	Exercise price	Exercise period	Expiry date
John Fickling	250,000	–	–	**250,000**	1.00p	10 years	03/07/2019
John Fickling	250,000	–	–	**250,000**	4.15p	10 years	03/07/2019

Directors' interests in shares

Directors' interests in the shares of Optare plc as at 31 March 2017 were:

	Number
John Fickling	3,588,355
Total	**3,588,355**

No other Statutory Director had any interest in the shares of Optare plc as at 31 March 2017.

The Company delisted on 1 June 2015.

Approval

This report was approved by the Board of Directors and authorised for issue on 27 July 2017 and was signed on its behalf by:

John Fickling
Chairman of the Remuneration Committee
27 July 2017

The Directors submit their report and the financial statements of Optare plc for the year ended 31 March 2017.

Principal activities

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

Financial instruments

The Group's financial instruments comprise cash, borrowings and finance leases, and various items such as trade debtors and trade creditors arising from its operations. The Group has not established a formal policy on the use of financial instruments but assesses the risks faced by the Group as economic conditions and the Group's operations develop. Further disclosures relating to financial instruments are included in the summary of significant accounting policies.

Political and charitable contributions

There were no political contributions during the period. Charitable contributions were £3.0k in the period (2015/16: £nil).

Research and development

The Group has one of the strongest product development teams in the industry, generating advanced product designs in accordance with customer needs, legislative requirements and market trends, integrated with market-leading technology suppliers.

The Company has recently introduced its new product for the double deck market, which is running customer trials in the UK, with electric vehicle (EV) and hybrid variants to be made available.

Events since the end of the year

The Company has been successful in refinancing both the existing bank overdraft and term loan facilities at lower rates of interest. The overdraft facility has moved from Barclays Bank PLC to ICICI Bank UK PLC, with the term loan facility moving from Barclays Bank PLC to Citibank Europe plc. Barclays Bank PLC will be retained to support day-to-day banking requirements. In these discussions, the Company derives support from Ashok Leyland Ltd as its promoter and majority shareholder.

Post the year end there has been a new appointment to the Board of Directors – Seshu Bhagavathula as a Non-executive Director. Seshu Bhagavathula brings a wealth of engineering and product development experience. Anuj Kathuria and Venkataraman Thyagarajan have resigned as Non-executive Directors.

See note 24, Post-period-end events, for further detail.

Directors

Directors who served in the year are as follows:

John Fickling
Steven Norris
Venkataraman Thyagarajan (resigned 1 June 2017)
Gopal Mahadevan
Venkatesan Venkataraman
Anuj Kathuria (resigned 9 June 2017)
Seshu Bhagavathula (appointed 27 June 2017)

Senior Officers of the Company who served in the year are as follows:

Graham Belgum
Hariharan Krishnamurthi

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

Disabled people

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

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

Employee involvement

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

Environmental policy

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

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

Trade creditor days based on creditors at 31 March 2017 were 46 days (2015/16: 60 days).

Substantial shareholdings
Ashok Leyland Ltd owns 75.1% of the share capital of the business. Ashok Leyland Ltd is classified as the immediate parent of the Company as it maintains the controlling interest and exercises control through its employees, who sit on the Board of Optare plc. The Board has authorisation from the 10 September 2014 shareholders' general meeting to issue warrants to maintain this percentage on the exercise of share options or other outstanding warrants.

The Company delisted from AIM on 1 June 2015. Following this, a matched bargain service was arranged and provided to our shareholders.

Related party transactions
Details of transactions with Ashok Leyland Ltd and associated companies can be found in note 25, Related party transactions.

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

Dividends
The Directors do not propose the payment of a dividend in respect of the current period (2015/16: £nil).

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

Auditor
KPMG LLP has indicated its willingness to continue in office and a resolution that it be re-appointed as auditor will be proposed at the annual general meeting.

Statement as to disclosure of information to the auditor
The Directors who held office at the date of approval of this Directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditor is unaware, and each Director has taken all steps that he ought to have taken as a Director to make himself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

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

This report was approved by the Board of Directors and authorised for issue on 27 July 2017 and was signed on its behalf by:

John Fickling
Non-executive Chairman
Unit 3
Hurricane Way South
Sherburn in Elmet
Leeds
North Yorkshire
LS25 6PT

27 July 2017

In respect of the annual report and the financial statements

The Directors are responsible for preparing the annual report and the Group and parent company financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare Group and parent company financial statements for each financial year. Under that law they have elected to prepare the Group financial statements in accordance with IFRSs as adopted by the EU and applicable law and have elected to prepare the parent company financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice), including FRS 101 "Reduced Disclosure Framework".

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 parent company and of their profit or loss for that period. In preparing each of the Group and parent company financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- for the Group financial statements, state whether they have been prepared in accordance with IFRSs as adopted by the EU; and
- for the parent company financial statements, state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent company's transactions and disclose with reasonable accuracy at any time the financial position of the parent company and enable them to ensure that its financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

FINANCIAL STATEMENTS

To the members of Optare plc

We have audited the financial statements of Optare plc for the year ended 31 March 2017 set out on pages 25 to 50. 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 EU. The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice), including FRS 101 "Reduced Disclosure Framework".

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

Respective responsibilities of Directors and auditor

As explained more fully in the Directors' responsibilities statement set out on page 22, 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 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 Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate.

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the parent company's affairs as at 31 March 2017 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 EU;
- the parent company financial statements have been properly prepared in accordance with UK 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 strategic report and the Directors' report for the financial year is consistent with the financial statements.

Based solely on the work required to be undertaken in the course of the audit of the financial statements and from reading the strategic report and the Directors' report:

- we have not identified material misstatements in those reports; and
- in our opinion, those reports have been prepared in accordance with the Companies Act 2006.

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.

Claire Needham (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
1 Sovereign Square
Sovereign Street
Leeds LS1 4DA
27 July 2017

For the year ended 31 March 2017

	Notes	**Year ended 31 March 2017 £'000**	Year ended 31 March 2016 £'000
Revenue	1	**34,961**	38,286
Cost of sales		**(32,246)**	(34,858)
Gross profit		**2,715**	3,428
Administrative expenses		**(9,422)**	(9,860)
Distribution costs		**(519)**	(514)
Amortisation of intangible assets	11	**(1,400)**	(906)
Impairment of goodwill	10	**(4,270)**	—
Loss from operations	3	**(12,896)**	(7,852)
Finance costs	5	**(2,820)**	(1,482)
Loss on ordinary activities before taxation		**(15,716)**	(9,334)
Taxation	6	**—**	—
Loss attributable to the equity holders of the parent company		**(15,716)**	(9,334)

	Year ended 31 March 2017	Year ended 31 March 2016
Loss per share (note 8):		
From continuing operations (basic and diluted)	**(0.7)p**	(0.4)p

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

FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 March 2017

	Share capital £'000	Share premium £'000	Merger reserve £'000	Retained loss £'000	Share-based payment reserve £'000	Total £'000
Balance at 31 March 2015	9,005	32,396	5,542	(60,549)	42	(13,564)
Loss for the year	—	—	—	(9,334)	—	(9,334)
Total comprehensive loss for the year	—	—	—	(9,334)	—	(9,334)
Balance at 31 March 2016	9,005	32,396	5,542	(69,883)	42	(22,898)
Loss for the year	—	—	—	(15,716)	—	(15,716)
Total comprehensive loss for the year	—	—	—	(15,716)	—	(15,716)
Balance at 31 March 2017	**9,005**	**32,396**	**5,542**	**(85,599)**	**42**	**(38,614)**

CONSOLIDATED BALANCE SHEET

As at 31 March 2017
Company number: 06481690

	Notes	As at 31 March 2017 £'000	As at 31 March 2016 £'000
Non-current assets			
Goodwill	10	**4,304**	8,574
Other intangible assets	11	**7,767**	8,285
Property, plant and equipment	12	**3,765**	3,329
		15,836	20,188
Current assets			
Inventories	13	**7,128**	6,829
Trade and other receivables	14	**4,225**	2,493
		11,353	9,322
Total assets		**27,189**	29,510
Current liabilities			
Trade and other payables	15	**7,637**	8,663
Loans and overdrafts	26	**9,661**	29,980
Provisions	16	**1,307**	752
Obligations under finance leases	17	**25**	64
		18,630	39,459
Non-current liabilities			
Bank and other loans	26	**44,423**	10,225
Provisions	16	**2,693**	2,642
Obligations under finance leases	17	**57**	82
		47,173	12,949
Total liabilities		**65,803**	52,408
Net liabilities		**(38,614)**	(22,898)
Equity			
Share capital	19	**9,005**	9,005
Share premium		**32,396**	32,396
Share-based payment reserve		**42**	42
Merger reserve		**5,542**	5,542
Retained loss		**(85,599)**	(69,883)
Total deficit attributable to equity holders of the parent		**(38,614)**	(22,898)

The financial statements on pages 25 to 45 were approved by the Board of Directors and authorised for issue on 27 July 2017 and were signed on its behalf by:

John Fickling
Non-executive Chairman
27 July 2017

For the year ended 31 March 2017

	Notes	**Year ended 31 March 2017 £'000**	Year ended 31 March 2016 £'000
Operating activities			
Cash absorbed by operations	23	**(8,839)**	(8,165)
Interest paid	5	**(2,820)**	(1,482)
Net cash used in operating activities		**(11,659)**	(9,647)
Investing activities			
Purchase of property, plant and equipment		**(1,284)**	(753)
Purchases of HP assets		**—**	(75)
Internal capitalised costs		**(881)**	(606)
Net cash used in investing activities		**(2,165)**	(1,434)
Financing activities			
Finance lease repayments		**(64)**	(99)
Loans		**10,131**	11,190
Net cash generated from financing activities		**10,067**	11,091
Net (decrease)/increase in cash and cash equivalents		**(3,757)**	10
Cash and cash equivalents at start of year		**(4,991)**	(5,001)
Cash and cash equivalents at end of year	26	**(8,748)**	(4,991)

In respect of the consolidated financial statements

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

The financial statements have been prepared on a historical cost basis, except for derivative instruments which are measured at fair value. The historical financial statements consolidate those of Optare plc and its subsidiaries.

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

Going concern
The financial statements have been prepared on a going concern basis, which assumes that the Group will continue to be able to meet its liabilities as they fall due for the foreseeable future. The Group made a net loss of £15.7m in the year ended 31 March 2017 (2015/16: £9.3m), which has resulted in the Group now having net liabilities of £38.6m (2015/16: £22.9m).

The Group has conducted a thorough review of its strategy for the next five years and put forward updated trading forecasts through to March 2022, which include detailed cash flow calculations. The Group is forecast to be cash generative in 2019/20. The Group continues to have facilities and parental support in place to meet its funding requirements. The forecasts are based on detailed assumptions as to sales performance and variable and fixed costs.

The forecasts assume a gradual increase in the level of savings in material costs over the forecast period, achieved both through the Company's own efforts and through joint initiatives with Ashok Leyland Ltd. Improvement in labour productivity is factored in, as well as further expected gains from process improvement and redesigns of the buses for efficient manufacturing.

There is inherent uncertainty in any forecast. In assessing such forecasts the Directors have considered the impact of such uncertainties, including the financial strength of customers, any lack of visibility regarding sales beyond the current order book, the ability of suppliers to meet demand, the achievability of material and labour, and the possibility that the external economic environment might worsen. The Directors feel that a reasonably conservative approach has been taken in the forecasts and that the facilities in place have adequate headroom to allow for these uncertainties. The Company has also received a formal letter of support from Ashok Leyland Ltd, the parent company. Ashok Leyland Ltd has indicated that it will provide such financial and other support as is required to support the business plan of the Company.

During the year the Company successfully renewed its bank facilities (overdraft and term loan) with Barclays Bank PLC; however, these facilities have been replaced after the year end with the overdraft facility increasing by £4m and moving from Barclays Bank PLC to ICICI Bank UK PLC, with the term loan facility also moving from Barclays Bank PLC but to Citibank Europe plc. The new facilities with ICICI Bank UK PLC and Citibank Europe plc are backed by a corporate guarantee provided by Ashok Leyland Ltd.

The Group also has a £0.9m short-term loan facility from Ashok Leyland (UAE) Ltd and £29.4m of long-term loan facilities from Ashok Leyland Ltd as at 31 March 2017. The Group continues to receive significant support from Ashok Leyland Ltd to achieve the business plan, and is confident of refinancing the £0.9m short-term loan facility, which is due for repayment in the coming financial year. The £29.4m term loan facilities from Ashok Leyland Ltd is due for repayment in March 2019 and March 2020 subject to meeting banking covenants.

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

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

Further to the above point the Directors have carried out an impairment review of the net investments in subsidiaries, using the same forecasts and assumptions used in the impairment review of the goodwill included in note 10 of the consolidated financial statements.

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 and balances and unrealised gains on transactions between Group companies are eliminated.

New IFRSs and amendments to International Accounting Standards (IASs)
IFRSs effective for accounting periods starting on or after:

IFRS 9	Financial Instruments will supersede existing guidance on the classification and measurement of financial assets and introduce new rules for hedge accounting. Accordingly, the Group does not expect the financial statements to be significantly affected.	1 January 2018
IFRS 15	Revenue from Contracts with Customers replaces IAS 18 Revenue. The Group is assessing the potential impact of the new standard and, at this stage, does not anticipate any significant changes to its financial statements.	1 January 2018
IFRS 16	Leases replaces IAS 17. The Group is evaluating the impact of the new standard, but this is not expected to be significant.	1 January 2019

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

Revenue
The Group's revenue arises from the sale of vehicles and parts and the provision of repairs, and is stated at the invoiced amount net of VAT. No separate revenues are generated from development and design. Revenue is recognised upon the transfer of all risks and rewards in relation to the Group's products. For the sale of vehicles, revenue is recognised on delivery of the goods; for parts, it is recognised on dispatch of the goods; and for repairs, it is recognised on completion of the relevant repair.

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

Functional and presentation currency
The functional and presentation currency for Optare plc is Sterling.

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

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

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

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

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

1. Acquired vehicle design
Vehicle design acquired is amortised on a straight line basis of up to ten years.

2. Internal vehicle design
Vehicle designs are valued at the cost of generating vehicle designs including internal and external engineering and testing costs. The amortisation period and charges are recognised on a systematic basis over the anticipated useful economic life of the design of up to ten years. Amortisation is charged to the profit and loss account on a straight line basis over the estimated useful lives of intangible assets, up to a maximum of ten years.

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

Research and development
No research activities have been undertaken within the period. If any are undertaken then research activities are recognised as an expense in the period in which they are 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 the estimated useful lives of intangible assets, up to a maximum of ten years.

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

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

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

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

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

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

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

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

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

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

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

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

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

- the initial recognition of goodwill;
- goodwill for which amortisation is not tax deductible; and
- 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 Group has a legally enforceable right to offset current tax assets and liabilities and the deferred tax assets and liabilities relate to taxes levied by the same tax authority.

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

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

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

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

Inventories
Inventories are initially recognised at a weighted average value method (WAV) and are stated at the lower of cost and net realisable value. Cost comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

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

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

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

Non-vesting and market-vesting conditions are taken into account when estimating the fair value of the option at the 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. When a share-based payment is cancelled, an amount is recognised in the profit and loss account that would otherwise have been recognised over the remainder of the vesting period if the cancellation had not occurred.

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, and income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. The key sources of estimation that have a significant impact on the carrying value of assets and liabilities are discussed below:

Provision for warranty claims
Management has estimated the cost of potential warranty claims arising on acquisition of the various businesses and on new bus sales. This requires an element of judgement about the likely level of claims and their financial impact upon the business. The factors affecting the level of warranty cost are: the number of buses sold; the length in periods and the breadth in cover of the terms of the warranty given with the bus; the ability of the Company to obtain suitable back-to-back warranties from its suppliers; the efficiency of the quality processes applied in designing and building the buses; the strictness with which warranty claims from customers are vetted; and the extent to which goodwill claims are allowed. Judgements on the level of warranty provision that is required are based on the number of buses in service and their remaining warranty life, with the key estimation being the likely warranty cost per bus. This is based on historical data, with estimates where necessary for new vehicle designs. If the assumption for likely warranty cost per vehicle was adjusted by 10%, this would equate to an under or overprovision of £400,000.

Impairment reviews
Management performs impairment reviews annually on goodwill, other intangible assets and tangible assets. These involve comparing the estimated future cash flows of the business, using a discounted rate, to the carrying value of the Group's non-current assets. Where the net present value of the forecast cash flows exceeds the carrying value, no impairment is required. As required by IFRSs, no assumption is made that profit growth can exceed national, market or product averages without justification.

Clearly, there is an element of judgement required in assessing the potential future benefits to be derived from these assets. When completing the impairment review, the Directors considered the same factors as outlined for the going concern review; critical judgements are the discount rate used and the growth in turnover in the next three years' business plan through the introduction of new products.

Derivative financial instruments
Derivative financial instruments are recognised at fair value in the financial statements; any potential gain or loss on remeasurement to fair value is recognised immediately in profit or loss. A financial instrument is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

1. Business and geographical segments and customer concentration

	Year ended 31 March 2017 £'000	Year ended 31 March 2016 £'000
Geographical analysis of revenue is as follows:		
UK	**30,704**	35,515
Other European	**181**	656
Non-EU	**4,076**	2,115
Total revenue	**34,961**	38,286

The Group operates one business segment – the internal design and subsequent sale of single and double deck buses and parts. No separate revenues are generated from design activities.

Non-EU revenue relates, in the main, to sales in the Middle East and a distributor in Australia.

During the period two geographies accounted for more than 12% of revenue (2015/16: 7% of revenue).

2. Exceptional items

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

	Year ended 31 March 2017 £'000	Year ended 31 March 2016 £'000
Restructuring costs	**13**	770
Administration	**13**	770

3. Loss from operations

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

	Year ended 31 March 2017 £'000	Year ended 31 March 2016 £'000
Net foreign exchange (gain)/loss	**(233)**	36
Cost of inventories recognised in cost of sales	**23,923**	24,148
Write down inventories recognised as an expense	**25**	255
Depreciation:		
– owned assets	**812**	592
– leased assets	**27**	44
Loss on disposal of fixed assets	**170**	26
Amortisation of intangible assets	**1,400**	906
Rental under operating leases	**1,082**	955
Staff costs	**9,282**	11,920
Amounts payable to KPMG LLP and its associates in respect of both audit and non-audit services:		
Audit services:		
– statutory audit including audit of subsidiary companies	**56**	57
Non-audit services:		
– services relating to tax services – compliance	**10**	5
	66	62

3. Loss from operations continued

The following table analyses the nature of expenses:

	Year ended 31 March 2017 £'000	Year ended 31 March 2016 £'000
Cost of inventories recognised in cost of sales	**23,923**	24,148
Staff costs (see note 4)	**9,282**	11,920
Warranty	**1,194**	1,221
Logistics partners	**2,190**	2,115
Premises costs	**1,145**	1,267
Depreciation, amortisation and impairments (see notes 11 and 12)	**6,509**	1,542
Utilities	**283**	148
Write down of inventories recognised as an expense	**25**	255
Transport costs	**371**	451
Marketing expenses	**187**	230
Insurance	**349**	260
Motor expenses	**462**	312
Professional fees	**342**	230
Travel and subsistence	**267**	171
Training, recruitment and relocation	**94**	423
Bank charges	**34**	65
Other administrative costs	**1,200**	1,380
Total cost of sales, distribution, administration and other operating expenses	**47,857**	46,138

4. Staff costs

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

	Average for year ended 31 March 2017 Number	Average for year ended 31 March 2016 Number
Production	**205**	237
Head office and administration	**115**	129
	320	366

The aggregate remuneration for the above people comprised:

	Year ended 31 March 2017 £'000	Year ended 31 March 2016 £'000
Wages and salaries, including exceptional costs*	**7,997**	10,612
Social security costs	**813**	765
Other pension costs	**472**	543
	9,282	11,920

Note:

* Exceptional costs included in wages and salaries relate to restructuring costs during the year of £12,731 (2015/16: £770,000).

Details of Statutory Directors' fees and salaries, bonuses, pensions, benefits in kind and other benefit schemes are given in the Directors' remuneration report on pages 18 and 19.

5. Finance costs and income

	Year ended 31 March 2017 £'000	Year ended 31 March 2016 £'000
Interest on bank overdrafts and loans	**705**	611
Interest on loans from Ashok Leyland Ltd and related companies	**2,100**	815
Interest on obligations under finance leases	**15**	31
Other interest	**—**	25
Total borrowing costs	**2,820**	1,482

6. Taxation

	Year ended 31 March 2017 £'000	Year ended 31 March 2016 £'000
Adjustments in respect of prior periods	**—**	—
Total current tax	**—**	—
Tax attributable to the Company and its subsidiaries	**—**	—

The Budget on 8 July 2015 announced changes in the main UK corporation tax rate. The rate (currently 20%) will reduce to 19% from 1 April 2017 and to 18% from 1 April 2020. The reduction in tax rates was included in the 2015–2016 Finance Act, which was substantively enacted for the purposes of IFRS and UK GAAP (i.e. having completed its Commons stages) on 26 October 2015. The Budget on 16 March 2016 announced further changes in the main UK corporation tax rate. The effective rate of 18% from 1 April 2020 was to be further reduced to 17%. This further reduction in tax rates was included in the 2016 Finance Act, which was substantively enacted for the purposes of IFRS and UK GAAP (i.e. having completed its Commons stages) on 6 September 2016.

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

	Year ended 31 March 2017 £'000	Year ended 31 March 2016 £'000
Loss on ordinary activities before tax	**(15,716)**	(9,334)
Tax at the domestic income tax rate	**(3,143)**	(1,867)
Tax effect of expenses that are not deductible in determining taxable profit	**13**	9
Tax losses not utilised	**3,130**	1,858
Tax credit for the period	**—**	—

7. Dividends

The Directors do not propose the payment of a dividend in respect of the current period (2015/16: £nil).

8. Loss per share

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

	Year ended 31 March 2017 £'000	Year ended 31 March 2016 £'000
Loss:	**(15,716)**	(9,334)
Loss for the purposes of basic loss per share (net loss for the period attributable to equity holders of the parent)	**(15,716)**	(9,334)
	Number	Number
Weighted average number of ordinary shares for the purposes of basic earnings per share	**2,235,291,827**	2,235,291,827
Basic and fully diluted loss per share	**(0.7)p**	(0.4)p

9. Subsidiaries

Name of subsidiary	Place of incorporation and operation	Proportion of ownership interest	Proportion of voting power held	Principal activity
Optare UK Ltd	UK	100%	100%	Supplying kits of passenger vehicles
Optare Group Ltd	UK	100%	100%	Manufacturer of passenger vehicles
Jamesstan Investments Ltd	UK	100%	100%	Holding company
Optare Holdings Ltd	UK	100%	100%	Holding company
Optare (Leeds) Ltd	UK	100%	100%	Dormant
East Lancashire Busbuilders Ltd	UK	100%	100%	Dormant

The registered address of all of the above companies is Unit 3, Hurricane Way South, Sherburn in Elmet, Leeds, North Yorkshire LS25 6PT.

10. Goodwill

	Year ended 31 March 2017 £'000	Year ended 31 March 2016 £'000
Cost		
At the start of the period	**8,700**	8,700
At the end of the period	**8,700**	8,700
Impairment		
At the start of the period	**126**	126
Impairment in the year	**4,270**	—
At the end of the period	**4,396**	126
Carrying amount at the end of the period	**4,304**	8,574

Goodwill arose on the 2008 purchase of Jamesstan Investments Ltd. 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 five years based on current management forecasts to March 2022 and extrapolation for later periods.

The growth assumptions (26% volume increase on sales of single deck vehicles for the first year, plus re-entry into the UK double deck market) used in these forecasts are the same as those used in the forecasts referred to in the basis of preparation and are based on a combination of market trends and new product opportunities. Thereafter they reflect an assumption that sales volumes will increase based upon the following factors:

- UK and export markets – Optare plans to maintain its market share of single deck diesel vehicles in the UK and grow its single deck electric vehicle presence. Concerted efforts have been made to develop export markets, with key locations such as Australia, New Zealand, Hong Kong, Singapore and the Middle East being a focus. Dealers have been appointed for Australia and New Zealand and are in the advanced stages re Hong Kong, Singapore and the Middle East. Initial indications are that these markets offer significant opportunities and that Optare's products are well suited or could easily be adapted to meet market demands.
- Introduction of new products – Optare will continue to pursue the introduction of the existing Metrodecker, whilst also completing the development of the Metrodecker electric vehicle. This product will utilise existing lightweight efficient designs with higher density battery technology to deliver increased range.

A risk adjustment is then made using a pre-tax discount rate of 6.0% to arrive at the value in use. The discount rate used is based on the weighted average cost of capital for both debt and equity of the Company as a starting point.

Sensitivity analyses have been performed which assume that sales for 2017/18 to March 2022 are at a lower level than assumed in the base case forecast and that margin improvements may not happen.

The Directors have carried out an impairment review of the goodwill and the net investments in subsidiaries, using the same forecasts and assumptions used in the going concern review. Based on this review, the Directors have concluded that an impairment of £4,270,000 is required.

11. Other intangible assets

	Vehicle related intangible assets £'000	Customer related intangible assets £'000	Total £'000
Cost			
At 31 March 2015	10,780	608	11,388
Additions – internally generated	665	—	665
Disposals	—	—	—
At 31 March 2016	11,445	608	12,053
Additions – internally generated	882	—	882
Disposals	—	—	—
At 31 March 2017	**12,327**	**608**	**12,935**
Amortisation			
At 31 March 2015	2,430	432	2,862
Charge for the year	870	36	906
Disposals	—	—	—
At 31 March 2016	3,300	468	3,768
Charge for the year	1,260	140	1,400
Disposals	—	—	—
At 31 March 2017	**4,560**	**608**	**5,168**
Carrying amount			
At 31 March 2017	**7,767**	**—**	**7,767**
At 31 March 2016	8,145	140	8,285
At 31 March 2015	8,350	176	8,526

The vehicle related intangible assets include internally generated new product developments in the period, such as the Solo EVs and low-carbon Euro 6 product line, and new product designs, such as the Metrocity and Metrocity EVs intended for the London market and the Metrodecker. Also included are vehicle designs included in the acquisition of Jamesstan Investments Ltd.

12. Property, plant and equipment

	Leasehold property improvements £'000	Production tooling £'000	Plant, machinery and motor vehicles* £'000	Fixtures and fittings £'000	Total £'000
Cost					
At 31 March 2015	1,691	1,688	1,758	343	5,480
Additions	62	121	664	—	847
Disposals	(36)	—	(136)	—	(172)
At 31 March 2016	1,717	1,809	2,286	343	6,155
Additions	—	65	1,390	—	1,455
Disposals	(8)	—	(191)	—	(199)
At 31 March 2017	**1,709**	**1,874**	**3,485**	**343**	**7,411**
Depreciation and impairments					
At 31 March 2015	473	1,441	279	89	2,282
Charge for the year	167	117	352	—	636
Disposals	(10)	—	(82)	—	(92)
At 31 March 2016	630	1,558	549	89	2,826
Charge for the year	171	147	516	5	839
Disposals	—	—	(19)	—	(19)
At 31 March 2017	**801**	**1,705**	**1,046**	**94**	**3,646**
Net book value					
At 31 March 2017	**908**	**169**	**2,439**	**249**	**3,765**
At 31 March 2016	1,087	251	1,737	254	3,329
At 31 March 2015	1,218	247	1,479	254	3,198

Note:

* Customer demonstration vehicles that are intended to be used in this capacity for twelve months or more are capitalised at cost as part of our demonstration fleet. When no longer required as a sales aid they are transferred to inventory at net book value. Customer demonstration stock is £1,679,737 (2015/16: £856,000).

The net book value of assets held under finance leases and hire purchase agreements is £266,675 (2015/16: £269,000).

13. Inventories

	Year ended 31 March 2017 £'000	Year ended 31 March 2016 £'000
Raw materials and consumables	**2,841**	2,222
Work in progress	**2,957**	1,626
Finished goods	**1,330**	2,981
Total	**7,128**	6,829

The movement in the write down of stocks to net realisable value can be reconciled to the income statement as follows:

	Year ended 31 March 2017 £'000	Year ended 31 March 2016 £'000
Opening provision	**1,622**	1,450
Movement during the year	**25**	172
Total	**1,647**	1,622

14. Trade and other receivables

	Year ended 31 March 2017 £'000	Year ended 31 March 2016 £'000
Trade receivables	**4,010**	2,382
Allowance for estimated irrecoverable amounts	**(360)**	(386)
Net trade receivables	**3,650**	1,996
Other receivables and prepayments	**575**	497
Total	**4,225**	2,493

Trade receivables past due but not impaired at the period end totalled £390,000 (2015/16: £349,000). The Directors consider that the carrying amount of trade and other receivables approximates to their fair value.

The Group has recognised an allowance for doubtful debt of 100% for parts debtors over 360 days. Allowances against doubtful debts are recognised against trade receivables between 30 days and 360 days based on estimated recoverable amounts based on past experience. The Group's credit risk relates primarily to its trade receivables. The debtor days as at 31 March 2017 were 38 days (2015/16: 24 days).

Ageing of past due but not impaired receivables:

	Year ended 31 March 2017 £'000	Year ended 31 March 2016 £'000
30–180 days	**346**	269
180–365 days	**28**	28
Greater than one year	**16**	52
Total	**390**	349

The aged debt 30–180 days of £346,000 includes £106,000 to one customer for which a payment plan has been agreed.

The movement in the bad debt provision can be reconciled to the income statement as follows:

	Year ended 31 March 2017 £'000	Year ended 31 March 2016 £'000
Opening provision	**386**	227
Movement during the year	**(25)**	159
Total	**360**	386

15. Trade and other payables

	Year ended 31 March 2017 £'000	Year ended 31 March 2016 £'000
Trade payables	**5,515**	5,499
Social security and other taxes	**253**	448
Accruals and deferred income	**1,869**	2,716
	7,637	8,663

Creditor days as at 31 March 2017 were 46 days (2015/16: 60 days). The Directors consider that the carrying amount of trade payables approximates to their fair value. Of the trade payables outstanding at the period end, £13,969 (2015/16: £290,000) was denominated in foreign currencies, principally in Euros.

16. Provisions

	Warranty provision £'000	Total provisions £'000
At 31 March 2016	3,394	3,394
Additional provision	1,194	1,194
Utilisation of provision	(588)	(588)
At 31 March 2017	**4,000**	**4,000**
Under one year provision	1,307	1,307
Over one year provision	2,693	2,693
At 31 March 2017	**4,000**	**4,000**

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. Warranty offered to customers is currently between two and five years.

17. Obligations under finance leases

	Minimum lease payments year ended 31 March 2017 £'000	**Present value of lease payments year ended 31 March 2017 £'000**	Minimum lease payments year ended 31 March 2016 £'000	Present value of lease payments year ended 31 March 2016 £'000
Amounts payable under finance leases:				
– within one year	**25**	**20**	64	75
– within two to five years	**57**	**22**	82	66
	82	**42**	146	141

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

The average rate of interest charged on the finance leases outstanding was 13.9% in the period (2015/16: 12.6%).

18. Deferred tax

At the reporting date, the Group has unused tax losses of £80,522,757 (2015/16: £64,806,597) available for offset against future profits. A deferred tax asset of £16,104,551 at a tax rate of 20% (2015/16: £12,961,319 at 20%) has not been recognised in respect of these losses due to the unpredictability of future profit streams.

19. Share capital

	Ordinary shares of 1p each Number	Ordinary shares of 0.1p each Number	Deferred shares of 0.9p each Number	£
At 31 March 2016	—	2,235,291,827	752,145,493	9,004,601
Shares issued	—	—	—	—
At 31 March 2017	**—**	**2,235,291,827**	**752,145,493**	**9,004,601**

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

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

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

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

20. Retirement benefits

Defined contribution schemes

The Group operates defined contribution retirement benefit schemes 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 £472,000 (2015/16: £543,000) represents contributions payable to these schemes by the Group at rates specified in the rules of the schemes. As at 31 March 2017, contributions of £nil (2015/16: £nil) due in respect of the current reporting period had not been paid over to the schemes.

21. Share-based payments

Equity-settled share option plan

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

	2017		2016	
	Options '000	**Weighted average exercise price Pence**	Options '000	Weighted average exercise price Pence
Outstanding at the beginning of the period	**500**	**2.58**	500	2.58
Granted during the period	**—**	**—**	—	—
Forfeited during the period	**—**	**—**	—	—
Outstanding at the end of the period	**500**	**2.58**	500	2.58
Exercisable at the end of the period	**500**	**2.58**	500	2.58

No options were exercised during the period. The options outstanding at 31 March 2017 had an exercise price between 1.0p and 4.15p (2015/16: between 1.0p and 4.15p) and a weighted average remaining contractual life of 2.3 years (2015/16: 3.3 years).

On 25 June 2012 128,739,439 warrants were issued to Ashok Leyland Ltd and its associated companies Ashley Holdings Ltd and Ashley Investments Ltd. On 10 August 2013 a number of these warrants lapsed. These warrants give Ashok Leyland Ltd and its associated companies the right to subscribe for additional shares to maintain their 75.1% shareholding in the event that any non-Ashok Leyland Ltd warrants or share options are exercised. At 31 March 2017 18,581,735 warrants were outstanding.

In 2016/17 fair value warrants were issued to Ashok Leyland Ltd companies of £nil (2015/16: £nil).

22. Operating lease arrangements

The Group as a lessee

Commitments under non-cancellable leases for:

	Year ended 31 March 2017 £'000	Year ended 31 March 2016 £'000
Buildings	**7,285**	8,040
Other	**437**	170
	7,722	8,210

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

	Year ended 31 March 2017 £'000	Year ended 31 March 2016 £'000
Amounts due within one year	**914**	851
Amounts due between one and five years	**2,993**	2,898
Amounts due after more than five years	**3,815**	4,461
	7,722	8,210

23. Net cash from operating activities

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

	Year ended 31 March 2017 £'000	Year ended 31 March 2016 £'000
Operating activities		
– loss before tax	**(15,716)**	(9,334)
Adjustments for		
– depreciation	**839**	636
– amortisation of intangible assets	**1,400**	906
– impairment of goodwill	**4,270**	—
– net finance expense	**2,820**	1,482
– loss on disposal of property, plant and equipment	**—**	—
Operating cash flows before movements in working capital	**(6,386)**	(6,310)
Changes in working capital		
– (increase)/decrease in inventories	**(299)**	12
– (increase)/decrease in trade and other receivables	**(1,732)**	4,946
– decrease in trade and other payables	**(1,028)**	(5,282)
– increase/(decrease) in provisions	**606**	(1,531)
Total decrease in working capital	**(2,453)**	(1,855)
Net cash absorbed in operating activities	**(8,839)**	(8,165)

24. Post-period-end events

The Company has been successful in refinancing both the existing bank overdraft and term loan facilities at lower rates of interest. The overdraft facility has moved from Barclays Bank PLC to ICICI Bank UK PLC, with the term loan facility moving from Barclays Bank PLC to Citibank Europe plc. Barclays Bank PLC will be retained to support day-to-day banking requirements. In these discussions, the Company derives support from Ashok Leyland Ltd as its promoter and majority shareholder.

25. Related party transactions

Key management is considered to be the Board of Directors and members of the Steering Committee (SC), which includes the President and the Chief Financial Officer. The transactions with key management are described in the Directors' and Senior Officers' remuneration report.

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

Ashok Leyland Ltd had loan agreements in place at the period end with an outstanding amount of £30,335,030 including accrued interest. The loans are interest bearing at between 4% and 8% above the Bank of England base rate. The loans are unsecured and £1,110,030 is repayable within one year and £29,225,000 is repayable within three years, but with 30 days' notice if requested by the lender, subject to banking covenants.

The major shareholder, Ashok Leyland Ltd, is providing key employee resource to support the business. The charge was £nil in this year's results (2015/16: £nil). The cost of this expense that remained outstanding at the period end was £nil (2015/16: £nil).

During the year there was no sale of development vehicles by the Company to Ashok Leyland Ltd (2015/16: £nil).

26. Financial instruments

	Year ended 31 March 2017 £'000	Year ended 31 March 2016 £'000
Current financial liabilities		
Bank overdrafts	**8,748**	5,125
Bank loans	**—**	15,000
Related party short-term loans	**913**	9,989
	9,661	30,114
Non-current financial liabilities		
Bank loans	**15,000**	—
Related party term loans	**29,423**	10,225
	44,423	10,225
Net debt total	**54,084**	40,205
Analysis of borrowings by currency		
US Dollar – loans	**913**	1,489
Sterling – overdraft	**8,748**	454
Sterling – loans	**44,423**	38,396
	54,084	40,339

The Company had short-term loans in place at 31 March 2017 with Ashok Leyland Ltd.

The fair value of borrowings is not significantly different to the carrying value. The bank loan borrowings are at a floating rate of 4.71% over the GBP three-month London InterBank Offered Rate. The bank overdrafts are at a floating rate of 2.35% over the Bank of England base rate. The rates of short-term loans from the parent company are fixed in the range of 4% to 8% over the Bank of England base rate.

A short-term forward contract was in place with Barclays Bank PLC at the year end to cover the exposure associated with the short-term US Dollar loan. The forward contract had a trade date of 24 March 2017 and a maturity date of 26 April 2017, with a valuation at the year end showing a net gain of £158.

Financial instruments – risk management

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

- liquidity risk;
- interest rate risk;
- foreign currency risk; and
- credit risk.

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

Liquidity risk

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

Interest rate risk

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

Although the Board accepts that this policy neither protects the Company entirely from the risk of paying rates in excess of current market rates nor eliminates fully cash flow risk associated with interest payments, it considers that it achieves an appropriate balance of exposure to these risks. A one percentage point change in interest rates would result in a change in retained profit of approximately £0.5m.

26. Financial instruments continued

Financial instruments – risk management continued

Foreign currency risk

Management's primary foreign currency risk arises from suppliers who invoice in Euros, US Dollars and Swiss Francs. The Company monitors exchange rate movements and considers the utilisation of purchasing currency in advance to manage this risk. The Company's bulk purchases of stock enable management of the overall pricing of materials, and monitoring of exchange rates ensures that the Company makes payments against trade payables at an appropriate time to reduce the effect of exchange rate fluctuations.

Expected foreign currency receipts from export sales are taken into consideration in assessing the net foreign currency exposure.

Credit risk

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

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

Capital

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

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

At 31 March 2017 the Group had net liabilities of £38.6m, compared to net liabilities of £22.9m at 31 March 2016. The net debt of the Group was £54.1m at 31 March 2017 compared to £40.2m at 31 March 2016, reconciled as follows:

	Year ended 31 March 2017 £'000	Year ended 31 March 2016 £'000
Bank loans and overdrafts	**23,749**	19,991
Related party loans	**30,335**	20,214
	54,084	40,205

Gearing ratio at the year end is as follows:

	2017 £m	2016 £m
Debt	**54.1**	40.2
Cash and cash equivalents	**—**	—
Net debt	**54.1**	40.2
Capital	**15.5**	17.3
Net debt to capital ratio	**349%**	232%

Sensitivity analysis

Whilst Optare plc takes steps to minimise its exposure to cash flow interest rate risk and foreign exchange risk as described above, changes in interest and foreign exchange rates may have an impact on profit and cash flow. Optare plc's foreign exchange risk is dependent on the movement in the Euro, US Dollar and Swiss Franc to Sterling exchange rates. Any significant foreign currency denominated assets or liabilities at the period end are translated using exchange rates applicable at the time with any exchange rate difference being realised in the income statement. It is estimated that a one percentage point increase/decrease in interest rates would increase/decrease losses and increase/decrease equity by approximately £0.5m.

27. Parent company and ultimate controlling party

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

COMPANY BALANCE SHEET

As at 31 March 2017

	Notes	As at 31 March 2017 £'000	As at 31 March 2016 £'000
Fixed assets			
Investments	28	**81,233**	74,017
Fixed assets	29	**—**	—
		81,233	74,017
Current assets			
Debtors: amounts falling due within one year	30	**160**	466
		160	466
Creditors: amounts falling due within one year	32	**(1,894)**	(38,976)
Net current liabilities		**(1,734)**	(38,510)
Non-current liabilities			
Bank and other loans	33	**(58,641)**	(10,225)
Net assets		**20,858**	25,282
Capital and reserves			
Share capital	19	**9,005**	9,005
Capital reserves		**36,832**	36,832
Share-based payment reserve		**42**	42
Retained loss		**(25,021)**	(20,597)
Total equity		**20,858**	25,282

The Company's loss after tax for the period was £4,423,809 (2015/16: £133,583 profit).

The financial statements on pages 46 to 50 were approved by the Board of Directors and authorised for issue on 27 July 2017 and were signed on its behalf by:

John Fickling
Non-executive Chairman
27 July 2017

For the year ended 31 March 2017

	Share capital £'000	Capital reserve £'000	Retained loss £'000	Share-based payment reserve £'000	Total £'000
Balance at 31 March 2015	9,005	36,832	(20,463)	42	(13,564)
Loss for the year	—	—	(134)	—	(9,334)
Total comprehensive loss for the year	—	—	(134)	—	(9,334)
Balance at 31 March 2016	9,005	36,832	(20,597)	42	(22,898)
Loss for the year	—	—	(4,424)	—	(15,716)
Total comprehensive loss for the year	—	—	(4,424)	—	(15,716)
Balance at 31 March 2017	**9,005**	**36,832**	**(25,021)**	**42**	**(38,614)**

In respect of the Company financial statements

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

Basis of preparation
The financial statements have been prepared in accordance with applicable accounting standards under FRS 101 and under the historical cost accounting rules.

The Directors have taken advantage of the exemption available under Section 408 of the Companies Act 2006 and have not presented the profit and loss account of the Company.

Under FRS 101 the Company is exempt from the requirement to disclose related party transactions, share-based payments, financial instruments and to prepare a cash flow statement.

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

28. Investments

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

	Share in subsidiary undertakings £'000	Loans to subsidiary undertakings £'000	Total £'000
Cost			
At 31 March 2016	39,923	50,223	90,146
Additions	—	11,486	11,486
At 31 March 2017	**39,923**	**61,709**	**101,632**
Impairment			
At 31 March 2016	16,129	—	16,129
Charge for the year	4,270	—	4,270
At 31 March 2017	**20,399**	**—**	**20,399**
Carrying amount			
At 31 March 2017	**19,524**	**61,709**	**81,233**
At 31 March 2016	23,794	50,223	74,017

Details of the Company's subsidiaries at 31 March 2017 are shown in note 9.

The Directors have carried out an impairment review of the net investments in subsidiaries, using the same forecasts and assumptions used in the impairment review of the goodwill included in note 10 of the consolidated financial statements. Based on this review the Directors have concluded that an impairment of £4,270,000 is required.

29. Fixed assets

	Fixtures and fittings £'000
Cost	
At 31 March 2016	16
Additions	—
At 31 March 2017	**16**
Depreciation	
At 31 March 2016	16
Charge for the year	—
At 31 March 2017	**16**
Net book value	
At 31 March 2017	**—**
At 31 March 2016	—

30. Debtors due within one year

	Year ended 31 March 2017 £'000	Year ended 31 March 2016 £'000
Prepayments	**160**	466
Total	**160**	466

31. Operating lease arrangements

Annual commitments under non-cancellable leases for:

	Year ended 31 March 2017 £'000	Year ended 31 March 2016 £'000
Buildings – expiring after five years	**6,951**	7,562

32. Creditors: amounts falling due within one year

	Year ended 31 March 2017 £'000	Year ended 31 March 2016 £'000
Overdraft	**752**	454
Bank loans	**—**	15,000
Loans from parent undertaking	**—**	9,989
Trade creditors	**63**	89
Amounts payable to subsidiary undertakings	**—**	13,307
Social security and other taxes	**1**	(77)
Accruals and deferred income	**1,078**	214
	1,894	38,976

33. Creditors: amounts falling due after more than one year

	Year ended 31 March 2017 £'000	Year ended 31 March 2016 £'000
Bank loans	**15,000**	—
Loans from parent undertaking	**30,335**	10,225
Amounts payable to subsidiary undertakings	**13,306**	—
	58,641	10,225

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, accountant or other professional adviser authorised under the Financial Services and Markets Act 2000. If you have sold or transferred all your shares in Optare plc, please hand this document, together with the accompanying Form of Proxy, to the purchaser or transferee, or to the bank, stockbroker or other agent through whom the sale or transfer was effected, for transmission to the purchaser or transferee.

Notice of Annual General Meeting
Optare plc (the "Company")
(Incorporated and registered in England and Wales
with registered number 06481690)

Directors:
John Fickling (Non-executive Chairman)
Steven Norris (Non-executive Director)
Gopal Mahadevan (Non-executive Director)
Venkatesan Venkataraman (Non-executive Director)
Seshu Bhagavathula (Non-executive Director)

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

27 July 2017

To holders of ordinary shares of 0.1p each in the capital of the Company

Dear shareholder

2017 Annual General Meeting of Optare plc (the "Company")

1. Introduction

I am pleased to be writing to you with details of the Company's 2017 Annual General Meeting (AGM), which we are holding at the Company's registered office, Unit 3, Hurricane Way South, Sherburn in Elmet, North Yorkshire LS25 6PT on Thursday 28 September 2017 at 11.00am. The formal notice of the AGM is set out in the accompanying document.

2. Business to be transacted at the AGM

Details of the resolutions that are to be proposed at the AGM are set out below.

Ordinary resolution 1 – Reports and accounts

The Directors of the Company are required under the Companies Act 2006 to lay the audited annual accounts and reports for each financial year before the Company in general meeting.

Ordinary resolutions 2–6 – Election and re-election of Directors

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

(i) John Fickling;

(ii) Venkatesan Venkataraman;

(iii) Gopal Mahadevan; and

(iv) Steven Norris.

The following Director will be put forward for election:

(i) Seshu Bhagavathula.

Ordinary resolution 7 – Re-appointment and remuneration of auditor

The auditor of the Company must be re-appointed at each meeting at which the Company's annual accounts are presented. Resolution 2 proposes the re-appointment of KPMG LLP. The resolution also follows past practice in giving the Directors authority to determine the remuneration to be paid to the auditor.

Special resolution 8 – Authority to allot shares and disapplication of pre-emption rights

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

2017 Annual General Meeting of Optare plc (the "Company") continued

2. Business to be transacted at the AGM continued

Special resolution 8 – Authority to allot shares and disapplication of pre-emption rights continued

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

This power, if granted, will last until the end of the AGM to be held in 2018 or, if earlier, 28 September 2018.

3. Action to be taken

You are entitled to appoint one or more proxies to exercise all or any of your rights to attend, speak and vote at the AGM on your behalf. You will find enclosed with this document a Form of Proxy for use in connection with the AGM. Whether or not you propose to attend the AGM in person, you are requested to complete and return the Form of Proxy to the Company's registrar, Capita Asset Services, PXS, 34 Beckenham Road, Kent BR3 4TU, as soon as possible and, in any event, so as to be received no later than 11.00am on 26 September 2017. Completion and return of a Form of Proxy will not stop you from attending the AGM and voting in person should you so wish.

Please note that if you do not give your proxy an indication of how to vote on any resolution, your proxy may vote or abstain from voting at his or her discretion. Your proxy will vote (or abstain from voting) as he or she thinks fit in relation to any other matter which is put before the meeting.

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
27 July 2017

By order of the Board

Notice is given that the AGM of the Company will be held at the Company's registered office, Unit 3, Hurricane Way South, Sherburn in Elmet, North Yorkshire LS25 6PT, on Thursday 28 September 2017 at 11.00am for the following purposes:

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

1. To receive the annual accounts for the year ended 31 March 2017 together with the reports of the Directors and auditor thereon.
2. To re-elect John Fickling as Non-executive Chairman.
3. To re-elect Venkatesan Venkataraman as a Non-executive Director.
4. To re-elect Gopal Mahadevan as a Non-executive Director.
5. To re-elect Steven Norris as a Non-executive Director.
6. To elect Seshu Bhagavathula as a Non-executive Director.
7. To re-appoint KPMG LLP as auditor of the Company and to authorise the Directors to determine its remuneration.

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

8. That the Directors of the Company be generally and unconditionally authorised pursuant to Section 551 of the Companies Act 2006 (the "Act") to exercise all powers of the Company to allot shares in the Company and to grant rights to subscribe for, or to convert any security into, shares in the Company, and they be given power pursuant to Sections 570 and 573 of the Act to allot equity securities (within the meaning of Section 560 of the Act) for cash as if Section 561 of the Act did not apply to any such allotment, provided that such authority and power shall be limited to:

   8.1 the allotment of equity securities to Directors and employees of the Company and its subsidiaries (on and subject to such terms and conditions as the Directors may see fit) up to an aggregate nominal amount of £44,706; and

   8.2 the allotment to Ashok Leyland Ltd and its associated companies for cash of such number of equity securities as is necessary to maintain the percentage holding of Ashok Leyland Ltd and its associated companies of shares in the issued ordinary share capital of the Company at 75.1%, up to an aggregate nominal amount of £134,837,

   and further provided that such authority and power shall expire at the conclusion of the next AGM of the Company after the passing of this resolution, but the Company may, before such expiry, make an offer or agreement which would or might require equity securities to be allotted after such expiry and the Directors may allot equity securities in pursuance of that offer or agreement as if the authority and power conferred by this resolution had not expired.

By order of the Board

Abhijit Mukhopadhyay
Company Secretary
27 July 2017

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

Notes

1. The Company specifies that only those holders of ordinary shares of 0.1p each in the capital of the Company registered in the Company's register of members at:

   1.1 close of business on 26 September 2017; or

   1.2 if this meeting is adjourned, at close of business two working days prior to the adjourned meeting shall be entitled to attend and vote at the meeting in respect of the number of ordinary shares of 0.1p each in the capital of the Company registered in their name at that time. Subsequent changes to entries in the register of members shall be disregarded in determining the rights of any person to attend or vote at the meeting.

2. Members may appoint a proxy or proxies:

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

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

3. A Form of Proxy which may be used to make such an appointment and give proxy instructions accompanies this notice of meeting. If you do not have a Form of Proxy and believe that you should have one, or if you require additional forms, please contact Capita Asset Services on 0871 664 0300 (calls cost 12p per minute plus network extras from within the UK) or from overseas on +44 (0)371 664 0300 (in either case lines are open 9.00am to 5.30pm (UK time) Monday to Friday).

4. A member may appoint more than one proxy in relation to the AGM provided that each proxy is appointed to exercise the rights attached to different shares held by a member. You may not appoint more than one proxy to exercise rights attached to any one share. To appoint more than one proxy you may photocopy the Form of Proxy or request additional forms from Capita Asset Services as set out in note 3 above.

Notes continued

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

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

 5.1 completed and signed;

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

 5.3 received by Capita Asset Services no later than 11.00am on 26 September 2017 or two working days prior to any adjourned meeting or, in the case of a poll, taken more than 48 hours after it is demanded, one working day before the time appointed for the taking of the poll.

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

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

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

8. In order for a proxy appointment or instruction made using the CREST service to be valid, the appropriate CREST message (a "CREST Proxy Instruction") must be properly authenticated in accordance with Euroclear UK & Ireland Limited (EUI's) specifications and must contain the information required for such instructions, as described in the CREST Manual. The message, regardless of whether it constitutes the appointment of a proxy or is an amendment to the instruction given to a previously appointed proxy, must, in order to be valid, be transmitted so as to be received by the issuer's agent (ID RA10) by 11.00am on 26 September 2017. For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp applied to the message by the CREST Applications Host) from which the issuer's agent is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST. After this time any change of instructions to proxies appointed through CREST should be communicated to the appointee through other means.

9. CREST members and, where applicable, their CREST sponsors or voting service providers should note that EUI does not make available special procedures in CREST for any particular messages.

 Normal system timings and limitations will therefore apply in relation to the input of CREST Proxy Instructions. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST personal member or sponsored member or has appointed (a) voting service provider(s), to procure that his CREST sponsor or voting service provider(s) take(s)) such action as shall be necessary to ensure that a message is transmitted by the CREST system by any particular time. In this connection, CREST members and, where applicable, their CREST sponsors or voting service providers are referred, in particular, to those sections of the CREST Manual concerning practical limitations of the CREST system and timings.

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

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

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

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

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

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

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

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

 16.2 during the meeting.

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

FORM OF PROXY
Optare plc

I/We ....

of ....

being (a) member(s) of the Company, appoint the Chairman of the meeting or

....

as my/our proxy to attend, speak and vote for me/us on my/our behalf at the AGM of the Company to be held at 11.00am on Thursday 28 September 2017 and at any adjournment of it.

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

Resolutions	For	Against	Withheld
Ordinary resolutions			
1. To receive the annual accounts for the year ended 31 March 2017 together with the reports of the Directors and auditor thereon.			
2. To re-elect John Fickling as Non-executive Chairman.			
3. To re-elect Venkatesan Venkataraman as a Non-executive Director.			
4. To re-elect Gopal Mahadevan as a Non-executive Director.			
5. To re-elect Steven Norris as a Non-executive Director.			
6. To elect Seshu Bhagavathula as a Non-executive Director.			
7. To re-appoint KPMG LLP as auditor of the Company and to authorise the Directors to determine its remuneration.			
Special resolution			
8. To authorise the Directors to allot shares and disapply statutory pre-emption rights.			

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

Number of shares proxy appointed over: ☐

Signature .... Date ....

Optare plc

Notes

1. Every holder has the right to appoint some other person(s) of their choice, who need not be a shareholder, as their proxy to exercise all or any of their rights to attend, speak and vote on their behalf at the meeting. If you wish to appoint a person other than the Chairman, please insert the name of your chosen proxy holder in the space provided (see overleaf). If the proxy is being appointed in relation to less than your full voting entitlement, please enter the number of shares in relation to which they are authorised to act as your proxy. If left blank, your proxy will be deemed to be authorised in respect of your full voting entitlement (or if this Form of Proxy has been issued in respect of a designated account for a shareholder, the full voting entitlement for that designated account).
2. To appoint more than one proxy you may photocopy this form. Please indicate the proxy holder's name and the number of shares in relation to which they are authorised to act as your proxy (which, in aggregate, should not exceed the number of shares held by you). Please also indicate if the proxy instruction is one of multiple instructions being given. All forms must be signed and should be returned together in the same envelope.
3. The vote "Withheld" option is provided to enable you to abstain on any particular resolution. However, it should be noted that a vote "Withheld" is not a vote in law and will not be counted in the calculation of the proportion of the votes "For" and "Against" a resolution.
4. Entitlement to attend and vote at the meeting and the number of votes which may be cast at the meeting will be determined by reference to the register of members of the Company at close of business on 26 September 2017. Changes to entries on the register of members after that time shall be disregarded in determining the rights of any person to attend and vote at the meeting.
5. The completion and return of this form will not preclude a member from attending the meeting and voting in person. If you attend the meeting in person, your proxy appointment will automatically be terminated.
6. The Form of Proxy must arrive at Capita Asset Services, PXS, 34 Beckenham Road, Beckenham BR3 4TU during usual business hours accompanied by any power of attorney under which it is executed (if applicable) no later than 11.00am on 26 September 2017.
7. If you prefer, you may return this Form of Proxy to the registrar in an envelope addressed to FREEPOST CAPITA PXS. Please note that delivery may take up to five working days if you use this Freepost address.
8. Please indicate with a cross in the appropriate box how you wish the proxy to vote. In the absence of any indication, the proxy will exercise his/her discretion as to whether and how he/she votes.

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

Company secretary
Abhijit Mukhopadhyay

Nominated adviser and broker
Cenkos Securities plc
6–8 Tokenhouse Yard
London EC2R 7AS

Solicitor to the Company
Pinsent Masons
1 Park Row
Leeds LS1 5AB

Auditor
KPMG LLP
1 Sovereign Square
Sovereign Street
Leeds LS1 4DA

Registrar
Capita Asset Services
The Registry
34 Beckenham Road
Beckenham
Kent BR3 4TU

Produced by
designportfolio

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