Optare plc

Annual report and accounts 2018

ASHOK LEYLAND

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

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.

→ Visit our website at optare.com for the latest news

Our range of ultra-lightweight and fuel-efficient vehicles

Our unique integral design increases fuel efficiency and reduces costs without compromising passenger comfort.

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

Operational highlights

- Confirmation of an order of 114 Metrocity buses for New Zealand for summer 2018 delivery.
- Ashok Leyland Limited increased its shareholding in Optare to 99.08%, to convert Optare's debt to equity, resulting in significantly lower levels of debt.
- Intensive in-service trials of the Metrodecker EV (electric double deck) and Metrocity electric bus.
- Continued development of EV technologies exploring different battery technologies to achieve increased range on a single charge.
- The decision to administer parts sales from the Sherburn site to improve customer satisfaction and grow this area of the business.
- Continued development of Euro 6 (including the introduction of a Cummins Euro 6 option) and weight reduction.

Financial highlights

- Revenue for the period was £26.9m, a drop of 23.1% over prior year.
- Gross profit was £4.3m (representing 16% of turnover) over the twelve-month period (2016/17: £2.7m representing 7.7% of turnover).
- Loss after tax was £14.7m including a £4.3m impairment of goodwill (2016/17: £15.7m also including a £4.3m impairment of goodwill).
- Operating cash outflow before working capital changes was £6.1m (2016/17: £6.4m).
- Loss per share was 0.1p (2016/17: loss was 0.7p).

→ Read our President's report on pages 3 and 4

STRATEGIC REPORT
CORPORATE GOVERNANCE
FINANCIAL STATEMENTS

Metrodecker

Type: Double deck

Length: 10.5–11.1m

Engine solution: Euro 6, electric

Solo

Type: Mini-bus

Length: 7.2–9.9m

Engine solution: Euro 6, electric

Metrocity

Type: Midi-bus

Length: 10.1–11.5m

Engine solution: Euro 6, electric

Continued focus on long-term growth and evolution

"Despite a challenging UK market; we are starting to see the success of the investments we have made over the last few years in the form of export sales in Australasia and export orders for the Middle East and Hong Kong."

Introduction

2017/18 has been a year of continued focus on long-term growth and evolution for Optare. Some of the major successes for the year include:

- confirmation of an order of 114 Metrocity buses for New Zealand for summer 2018 delivery;
- Ashok Leyland Limited increased its shareholding in Optare to 99.08%, to convert Optare's debt to equity, resulting in significantly lower levels of debt;
- a continued demand for the Versa model accounting for a quarter of vehicle sales in 2017/18;
- intensive in-service trials of the Metrodecker EV (electric double deck) and Metrocity electric bus;
- continued development of EV technologies exploring different battery technologies to achieve increased range on a single charge;
- the decision to administer parts sales from the Sherburn site to improve customer satisfaction and grow this area of the business;
- continued development of Euro 6 (including the introduction of a Cummins Euro 6 option) and weight reduction;
- continued investment in the demonstration fleet to enable more availability of vehicles for long-term evaluation by customers;
- development of new banking partnerships delivering lower interest rate benefits; and
- we continue to work closely with our parent company Ashok Leyland Limited, 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 with 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 Limited to deliver export opportunities and material savings.

I am pleased to report during the year we have made progress on these key objectives despite a challenging UK market; we are starting to see the success of the investments we have made over the last few years in the form of export sales in Australasia and export orders for the Middle East and Hong Kong.

Our customers

We remain focused on delivering a high quality, innovative, lightweight and efficient product with class-leading support that delivers the best possible whole life cost for our customers and enhances the bus travel experience for passengers. Our work to improve customer care in the aftermarket continues to pay dividends with more repeat orders from groups and large independent operators in 2017/18. The decision to administer parts sales from the Sherburn site has also paved the way to increase customer satisfaction and targeted growth of this area of the business. We continue to invest in our product support including moving our Manchester service centre to a new larger site with improved facilities.

Our people

A well trained and skilled workforce is key to supporting Optare's business strategy; in 2017/18 we continued to invest in our apprenticeship programmes in production and vehicle maintenance and in addition invested in an extensive programme of NVQ level 3, 4 and 5 qualifications open to work colleagues in administration and managerial roles across the business.

Once again, I would like to thank our workforce for its dedication, commitment and support in delivering the strategic objectives of the Company in a challenging market place. Lastly, I would like to thank our parent company, Ashok Leyland, other shareholders and bankers for their continuing support.

Strategic focus for 2018/19

In summary our strategy for 2018/19 will focus on:

- increasing sales in the UK with Solo, Versa, Metrocity and Metrodecker, with a specific focus on electric product;
- further growth in export sales of Solo, Metrocity and Tempo;
- targeted profitable growth of the parts division of the business in the UK;
- 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 Limited to deliver export opportunities and material savings.

John Fickling
Non-executive Chairman
20 June 2018

Investment in 2016/17 and 2017/18 has paved the way for export success

"Overall the Board expects progress in 2018-19 to be towards a profitable performance, with further growth in export sales and increased electric bus sales driven by air quality measures in UK Cities."

The market

2017/18 was another challenging year for the bus industry with continued cuts to subsidy funding for bus services leading to overall sales in the UK bus market contracting by 16%. This reduction was primarily driven by the double deck segment (29% decrease from the previous year), while the single deck segment made a slight recovery from last year's significant decrease (an 11% increase in 2017/18 following a decrease of 36% in 2016/17). Optare was only present in the single deck segment in 2017/18 but still maintains its position of the second largest single deck bus manufacturer in the UK, despite overall volumes in the industry decreasing.

Optare's performance

Despite a challenging UK market, investment in 2016/17 and 2017/18 has paved the way for the export success Optare is now enjoying with orders for 114 Metrocity buses for New Zealand and 94 buses for Dubai.

The global turnover decreased from £35.0m to £26.9m. Loss after tax was £14.7m (including a £4.3m impairment of goodwill); this can be attributed to a combination of factors which include: a contracted UK market, as a result of continued bus service subsidy cuts, having a major impact on rural routes and in turn a decrease in demand for the Optare Solo; further investment in product development; changes to the government funding for low emission vehicles; the cumulative effect of an absence of government funding for electric buses over the three years prior to 2016/17; and rationalisation costs associated with setting up the administration of parts supply from the Sherburn site.

The Solo remains a firm favourite, accounting for just over half of bus sales in 2017/18, closely followed by the Versa, which made a comeback in 2016/17, accounting for over a quarter of sales in 2017/18. Metrocity and Tempo sales accounted for the remaining quarter. In 2017/18 the Metrodecker Euro 6 demonstrators continued extensive in-service programmes with both Group and retail customers and the Metrodecker EV began extensive in-service trials in York, Leeds and London.

An ongoing programme of cost reduction and cost avoidance achieved substantial savings upon review of the Company's variable and fixed overheads during the period. Significant material cost savings have also been achieved in 2017/18.

Development

During 2017/18 our strategic focus has been to continue to deliver improvements in both aftermarket and manufacturing, maintain market share, retain our core capabilities in a challenging market place and develop opportunities for export sales in international markets.

2017/18 saw extensive investment in product development aside from the continued investment in Euro 6 technologies; this included the next generation of Optare double and single deck EV buses with increased density battery technology to deliver improved range, without compromising passenger capacities or decreasing the efficiencies afforded by the reduced weight Optare space frame design. In addition, investments were made to modify the Solo for the Middle East and Hong Kong and to further reduce the weight in the Metrocity model to secure the export contract for New Zealand.

Optare retained its international quality ISO 9001:2015 status for the second consecutive year.

Optare's commitment to product support in the aftermarket in 2017/18 saw it move its Manchester service centre into new larger premises with improved facilities and secure its London service centre site at Thurrock for another ten years.

The period also saw continued development of new dealer relations in the Middle East and Hong Kong and the Company's integration with our parent company, Ashok Leyland Limited, continued to support sales opportunities in international markets.

Financial performance

The financial results for the year show a net loss of £14.7m compared to a loss of £15.7m in the previous period, largely due to a drop in UK volume, investment in exports and EV vehicle development.

The key highlights for the period end are:

- Revenue for the period was £26.9m, a drop of 23.1% over prior year.
- Gross profit was £4.3m (representing 16% of turnover) over the twelve-month period (2016/17: £2.7m representing 7.7% of turnover).
- Loss after tax was £14.7m including a £4.3m impairment of goodwill (2016/17: £15.7m also including a £4.3m impairment of goodwill).
- Operating cash outflow before working capital changes was £6.1m (2016/17: £6.4m).
- Loss per share was 0.1p per share (2016/17: loss 0.7p per share).

Ashok Leyland Limited has further invested in Optare in 2017/18 primarily to reduce the debt burden of Optare and also to meet its capex requirements. As a result, Optare enters 2018/19 with significantly lower level of debts.

Outlook

We start 2018/19 with a very strong order book including two significant export orders and several UK Group orders.

The first 92 of a 114 Metrocity bus order have been shipped to Tranzit Group, one of New Zealand's largest public transport operators. We continue to work with our dealer in Australasia to develop further opportunities in both Australia and New Zealand.

Outlook continued

We also continue to develop dealer relations in the Middle East and Hong Kong and the Company's integration with our parent company, Ashok Leyland Limited, continues to support sales opportunities in international markets.

In April 2018 Optare signed a deal to supply 94 Solo buses to the Roads and Transport Authority in Dubai.

The Hong Kong Solo demonstrators began in-service trials in February 2018; the trials are going well and it is expected that orders will follow. We are also developing a similar opportunity for the introduction of the Solo into Singapore.

Group confidence in the Optare brand in the UK continues to grow with several repeat orders and groups returning to Optare. To date, Translink, Transdev, First, Go North East and Metroline have all confirmed orders for 2018/19 delivery.

Brexit has had some impact on the business with regards to materials sourced from Europe; however, the impact on the exchange rate has been advantageous for export opportunities. Ashok Leyland Limited continues to support the Company with materials sourcing and procurement.

Optare's green vehicle strategy is supported by the UK government's Air Quality Strategy, which proposes Clean Air Zones for five cities in the UK by 2020 with low emission zones expected to follow in many other towns and cities. Optare's EV strategy is also aligned with the potential opportunities for electric vehicles to support London's Ultra-Low Emission Zone plans for 2019. The first round of Ultra-Low Emissions Bus (ULEB) funding allocations has been announced resulting in confirmed orders for five Optare Solo EVs with a further Solo EV order for export. The winners of a further round of ULEB funding are expected to be announced in autumn 2018.

We continue to work with organisations such as Greener Journeys to raise awareness of issues such as congestion, the positive effect Euro 6 can deliver on air quality and getting passengers out of cars and into buses. However, due to the economic challenges faced by the UK bus market we expect that the UK bus market will remain relatively flat in 2018/19 and therefore Optare's focus will be on maintaining diesel single deck market share in the UK and continuing to grow market share with the support of Ashok Leyland Limited through export and EV product.

In 2018/19 Optare's next generation of EVs will be launched. These vehicles use higher density battery technology and stay true to our philosophy of reducing whole life costs by building lightweight and efficient buses.

The parts sales division of the business will focus on targeted growth for 2018/19, developing an "easy to do business with" reputation resulting in Optare parts being the first choice for many customers and second choice when incumbent suppliers are unable to supply.

We continue to work with our aftermarket customers to provide a dependable service and proactively identify where improvements can be made.

Overall the Board expects progress in 2018/19 to be towards a profitable performance, with further growth in export sales and electric bus sales driven by air quality measures in UK cities.

Graham Belgum
President
20 June 2018

→ See our annual highlights on pages 7 to 14
→ Read about corporate governance on page 17

Continued integration with Ashok Leyland Limited

2017/18 has seen continued support and integration with our parent company, Ashok Leyland Limited, including:

- significant infusion of equity (£58.22m) to substantially reduce Optare's debts;
- additional investment in Optare, converting Optare's debt to equity giving Optare a strong balance sheet to support both growth and development plans;
- Ashok Leyland Limited increased its shareholding in Optare to 99.08%;
- management support and collaboration at all levels of Ashok Leyland Limited 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 Limited.

Photo caption from left to right: Alastair Munro, Engineering Director, Optare; Muralee Krishnan, General Manager and Head of Manufacturing, Ashok Leyland Hosur Unit 2; Robert Drewery, Commercial Director, Optare; Hariharan Krishnamurthi, Chief Financial Officer, Optare; John Fickling, Non-executive Chairman; Shom Hinduja, President of Alternative Energy and Sustainability Initiatives, Hinduja Group; Dheeraj Hinduja, Chairman, Ashok Leyland Ltd; Andreas Biagosch, Director, Ashok Leyland; DJ Balaji Rao, Director, Ashok Leyland; Graham Belgum, President, Optare; and Venkatesan Venkataraman, President of Business Development and Strategy, Hinduja Automotive.

New appointment for Optare's growth plans

Optare announced the appointment of Richard Butler as Chief Executive on 2 July 2018. Richard joined Optare as Graham Belgum moved to a new position as Director of International Business Development, working closely with the management team at Ashok Leyland, Optare's parent company.

Richard has 30 years of international business experience gained at global manufacturer JCB. His experience in sales, customer support and distribution, marketing, product and business development along with engineering and manufacturing leaves him well placed to drive Optare's ambitious growth plans in innovative products and new markets.

Building on the recent successes in overseas markets, Optare will give additional drive to grow its international presence. In this regard, Graham Belgum with his vast experience in the bus business and in his new role as Director of International Business Development will leverage the strengths of Optare's superior bus designs, customisation capabilities and proven EV standing to enable significant export growth.

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.

Driving our future

Customer focus

Developing partnerships with our suppliers and our 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.

People development

2017/18 saw the continued investment in functional skills training with the delivery of ICT training through the Learning Agreement in partnership with UNITE the Union, which has supported a number of stores operatives in achieving NVQ Level 2. Fourteen employees from administrative and supervisory roles commenced NVQs, ranging from levels 3 to 5, achieving a 100% pass rate in June 2018.

Under the new Apprenticeship Levy and framework standards, we are funding an apprenticeship at our Manchester Service Centre, to achieve a City and Guild Level 2 NVQ Diploma in Passenger Carrying Vehicles (Bus and Coach). Optare's investment in apprenticeships will be extended to include two traineeships for a Level 2 Diploma in Auto Electrical and Mobile Electrical in 2018/19 at our production site in Sherburn.

Environment and sustainability

The environment and sustainability are at the heart of everything Optare, from developing the latest electric bus technology to increasing production efficiencies. 2017/18 saw the creation of a dedicated Production Engineering team devoted to defining processes and identifying improvements to deliver process efficiencies, tackle waste and enhance overall quality.

Annual highlights

80 Optare buses supplied to Translink since 2014

The first buses of a batch of 40 Optare buses (27 Versas and 13 Solos) are delivered to Translink. Optare has supplied a total of 80 buses to Translink since 2014.

May 2017

Optare celebrates apprentice success

Nathan Brown, Nikki Kerrigan and Jacob Stubbs all successfully gained the Institute of the Motor Industry Diploma level 3 in Body Building Competence and level 2 in Vehicle Accident Repair Principles. The three apprentices are the second generation of their families to join Optare and started work with the Company on 7 October 2013. They were presented with their certificates by Graham Belgum, Optare President, John Fickling, Non-executive Chairman, and Steve Norris, Deputy Chairman, at a special presentation.

June 2017

Optare stronger than ever in Australia and New Zealand – announces new distributor

Optare plc is delighted to announce Bus Corp Oceania Pty Ltd (BCO) as its new distributor for Optare products in Australia and New Zealand. To strengthen the Optare presence and increase the expansion of the brand, BCO is supported technically, financially and logistically by one of Australia's largest automotive groups.

June 2017

Four Optare airport specification Tempos for Manchester Airport

Manchester Airports Group added four airport specification Optare Tempos to its fleet; three of the vehicles featured two doors and one of the vehicles three doors to speed up boarding and alighting time. The buses are being predominately used for the transportation of airport staff on both the external network and the airport roads.

July 2017

30 new Optare Versas launched by Transdev Blazefield for Burnley

30 new Optare Versas are launched by Transdev Blazefield to serve its Burnley Mainline network – each packed with passenger-friendly features such as wireless charging, wifi, usb charging points and a high specification interior inspired by its "Make My Mainline" market research programme, which attracted hundreds of suggestions from customers.

August 2017

York welcomes trial of UK's newest electric double deck bus

A landmark moment is celebrated in York as it becomes the first UK city outside London to trial a new fully electric double deck bus. The Metrodecker EV to York undertook a month of in-service trials on the York Park and Ride network and selected city routes.

August 2017

Optare Solo EV is a hit with The Big Lemon

The Optare Solo EV spent a month on trial with Brighton-based operator The Big Lemon. The operator's mission is to enable everyone to get around their community in an affordable, enjoyable and environmentally-sustainable way and it would seem the Solo EV hit the mark.

September 2017

Optare drives international market with NZ$40m New Zealand deal

Optare secured its biggest ever Australasian export order worth NZ$40m (£21m) to supply 114 buses to Tranzit Group, one of New Zealand's largest public transport operators.

September 2017

Translink launches Optare Euro 6 Versas on Foyle Metro bus service for Derry~Londonderry

Translink invested over £3m in a striking new-look fleet and improved timetable to serve the people in Derry~Londonderry.

October 2017

Leeds welcomes electric double deck bus trial

First Leeds and Optare partnered to trial the Metrodecker EV in the city following a successful trial in York. The vehicle was trialled as part of First Leeds' commitment to investing in ultra-low emissions buses for the city.

January 2018

Optare Metrocity EV is a festive hit with Stagecoach Inverness

The Metrocity EV spent the festive period on trial with Stagecoach Inverness, where it delivered an impressive performance in winter conditions. The operator is committed to zero emissions technologies and already operates six Optare Solo EVs, the first with fully electric heating. Branded Inverness ElectiCity buses have served routes in Inverness since June 2015.

February 2018

Optare Solo begins operation in Hong Kong

An Optare Solo designed specifically for operation in Hong Kong commenced service on Hong Kong Island green minibus (GMB) route no. 54 (Kennedy Town Station – Queen Mary Hospital). The Hong Kong Transport Department will evaluate the bus on route no. 54, and plans to trial the Solo on another two hospital routes operating via Prince of Wales Hospital and St Teresa's Hospital respectively.

February 2018

Ace Café appearance for Optare Metrodecker EV

Optare's Metrodecker EV took a break from its in-service trials with Go-Ahead London, to make an appearance at the Ace Café London as part of an EV owners meet. The event, part of the café's 80th anniversary celebrations, was the first ever electric vehicle owners meet at the café and featured the latest designs in electric cars and motorbikes as well as Optare's innovative electric bus.

Photo credit: Chris Levy.

March 2018

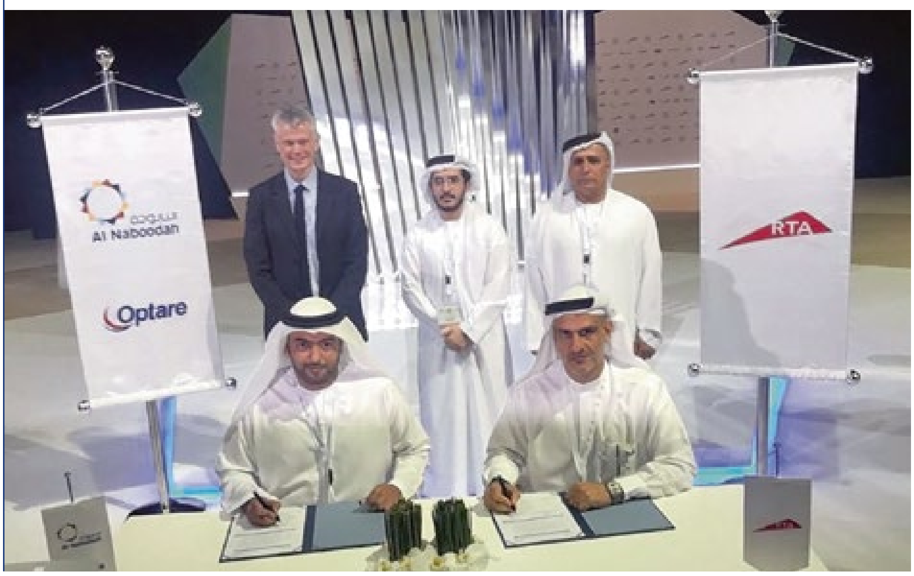
Tranzit Metrocity bus takes a detour on journey to New Zealand

One of the Metrocity buses destined for New Zealand took a detour to pose with a restored Wellington trolleybus at the Trolleybus Museum, Sandtoft, on its way to be shipped from the UK to New Zealand.

April 2018

Major Optare Solo order for Dubai

Optare signed a deal valued at circa £18m to supply 94 Solo buses to Dubai to the Roads and Transport Authority. The procurement of the Optare Solo is a new initiative marking the debut of this type of feeder style bus with Dubai Roads and Transport Authority; the buses will enter service in the first quarter of 2019.



Optare celebrates international market success with launch of 114 Metrocity buses in New Zealand

Optare marked the delivery of the first batch of 114 Metrocity buses to New Zealand at a special ceremony at the British High Commission in the country's capital, Wellington. Acting British High Commissioner, Helen Smith, cut the ribbon on the first bus of Optare's biggest ever Australasian export order, worth NZ$40m (£21m).

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

The Board of Directors and members of the Steering Committee are 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:

Risk	*Mitigation*
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 Limited 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.

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 (UK) 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 Limited. 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 its 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 Limited, 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 Limited, he has over 30 years' experience in industrial engineering, business and corporate planning functions. He led the Ashok Leyland Limited 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 Limited 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 post-graduate diploma from the Space Sciences and Applications Centre. Before joining Ashok Leyland Limited, 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 Centre in India between 1996 and 2000.

Anuj Kathuria

(Non-executive Director, resigned 9 June 2017)

Venkataraman Thyagarajan

(Non-executive Director, resigned 1 June 2017)

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 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 Limited 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 Limited-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, 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 and 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 21.

John Fickling
Non-executive Chairman
20 June 2018

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 three 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 2018 totalled £nil (2016/17: £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 2018, no share options were issued (2016/17: 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' contract provides 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 £	**2017/18 Total £**	2016/17 Total £
Non-executive Directors						
John Fickling	50,000	–	–	–	**50,000**	50,000
Anuj Kathuria (resigned 9 June 2017)	–	–	–	–	**–**	–
Gopal Mahadevan	–	–	–	–	**–**	–
Venkatesan Venkataraman	–	–	–	–	**–**	–
Venkataraman Thyagarajan (resigned 1 June 2017)	–	–	–	–	**–**	–
Steven Norris	24,000	–	–	–	**24,000**	24,000
Total	74,000	–	–	–	**74,000**	74,000

Key management incorporates the Board of Directors and members of the Steering Committee (SC). Total emoluments and compensation for the SC consists of £598,712 for the year ended 31 March 2018.

Directors' share options

	Options at 31 March 2017	Options granted in year	Options forfeited in year	**Options at 31 March 2018**	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 2018 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 2018.

The Company delisted on 1 June 2015.

Approval

This report was approved by the Board of Directors and authorised for issue on 20 June 2018 and was signed on its behalf by:

John Fickling
Chairman of the Remuneration Committee
20 June 2018

The Directors submit their report and the financial statements of Optare plc for the year ended 31 March 2018.

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 £4.8k in the year ended 31 March 2018 (2016/17: £3.0k).

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 EV and hybrid variants to be made available.

Events since the end of the year

There have been no significant events post the balance sheet date.

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 2018 were 35 days (2016/17: 46 days).

Substantial shareholdings

As at 31 March 2018 Ashok Leyland Limited owns 99.08% of the share capital of the business. Ashok Leyland Limited 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.

Related party transactions

Details of transactions with Ashok Leyland Limited 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 (2016/17: £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 includes 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 20 June 2018 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
20 June 2018

STATEMENT OF DIRECTORS' RESPONSIBILITIES
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 International Financial Reporting Standards as adopted by the European Union (IFRS 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 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, relevant, reliable and prudent;
- for the Group financial statements, state whether they have been prepared in accordance with IFRS as adopted by the EU;
- 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;
- assess the Group and parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Group or the parent company or to cease operations, or have no realistic alternative but to do so.

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 are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and 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

Opinion

We have audited the financial statements of Optare plc (the "Company") for the year ended 31 March 2018 which comprise the consolidated income statement and statement of comprehensive income, the consolidated statement of changes in equity, the consolidated balance sheet, the consolidated cash flow statement and related notes, including the summary of significant accounting policies.

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 2018 and of the Group's loss for the year then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with UK accounting standards, including FRS 101 Reduced Disclosure Framework; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the Group in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

Going concern

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least twelve months from the date of approval of the financial statements. We have nothing to report in these respects.

Strategic report and Directors' report

The Directors are responsible for the Strategic report and the Directors' report. Our opinion on the financial statements does not cover those reports and we do not express an audit opinion thereon.

Our responsibility is to read the Strategic report and the Directors' report and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work:

- we have not identified material misstatements in the Strategic report and the Directors' report;
- in our opinion, the information given in those reports for the financial year is consistent with the financial statements; 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

Under the Companies Act 2006, we are required 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.

We have nothing to report in these respects.

Directors' responsibilities

As explained more fully in their 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; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Group and parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Group or the parent company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

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

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

The purpose of our audit work and to whom we owe our responsibilities

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.

Claire Needham (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
1 Sovereign Square
Sovereign Street
Leeds
LS1 4DA
20 June 2018

CONSOLIDATED INCOME STATEMENT AND STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 MARCH 2018

	Notes	**Year ended 31 March 2018 £'000**	Year ended 31 March 2017 £'000
Revenue	1	**26,874**	34,961
Cost of sales		**(22,575)**	(32,246)
Gross profit		**4,299**	2,715
Administrative expenses		**(10,492)**	(9,422)
Distribution costs		**(786)**	(519)
Amortisation of intangible assets	9	**(1,416)**	(1,400)
Impairment of goodwill	8	**(4,304)**	(4,270)
Loss from operations	2	**(12,699)**	(12,896)
Finance costs	4	**(2,015)**	(2,820)
Loss on ordinary activities before taxation		**(14,714)**	(15,716)
Taxation	5	**—**	—
Loss attributable to the equity holders of the parent company		**(14,714)**	(15,716)

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

The notes on pages 35 to 45 form an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 MARCH 2018

	Share capital £'000	Share premium £'000	Merger reserve £'000	Retained loss £'000	Share-based payment reserve £'000	Total £'000
Balance at 31 March 2016	9,005	32,396	5,542	(69,883)	42	(22,898)
Comprehensive loss						
Comprehensive loss for the year	–	–	–	(15,716)	–	(15,716)
Total comprehensive loss	–	–	–	(15,716)	–	(15,716)
Balance at 31 March 2017	9,005	32,396	5,542	(85,599)	42	(38,614)
Transactions with shareholders						
Issue of ordinary shares	58,225	–	–	–	–	58,225
Total transactions with shareholders	58,225	–	–	–	–	58,225
Comprehensive loss						
Comprehensive loss for the year	–	–	–	(14,714)	–	(14,714)
Total comprehensive loss	–	–	–	(14,714)	–	(14,714)
Balance at 31 March 2018	**67,230**	**32,396**	**5,542**	**(100,313)**	**42**	**4,897**

The notes on pages 35 to 45 form an integral part of these financial statements.

CONSOLIDATED BALANCE SHEET
AT 31 MARCH 2018
COMPANY NUMBER: 06481690

	Notes	As at 31 March 2018 £'000	As at 31 March 2017 £'000
Non-current assets			
Goodwill	8	**—**	4,304
Other intangible assets	9	**7,382**	7,767
Property, plant and equipment	10	**3,258**	3,765
		10,640	15,836
Current assets			
Inventories	11	**17,626**	7,128
Trade and other receivables	12	**5,775**	4,225
Cash		**245**	—
		23,646	11,353
Total assets		**34,286**	27,189
Current liabilities			
Trade and other payables	13	**11,237**	7,637
Loans and overdrafts	24	**14,711**	9,661
Provisions	14	**1,038**	1,307
Obligations under finance leases	15	**25**	25
		27,011	18,630
Non-current liabilities			
Bank and other loans	24	**—**	44,423
Provisions	14	**2,347**	2,693
Obligations under finance leases	15	**31**	57
		2,378	47,173
Total liabilities		**29,389**	65,803
Net assets/(liabilities)		**4,897**	(38,614)
Equity			
Share capital	17	**67,230**	9,005
Share premium		**32,396**	32,396
Share-based payment reserve		**42**	42
Merger reserve		**5,542**	5,542
Retained loss		**(100,313)**	(85,599)
Total deficit attributable to equity holders of the parent		**4,897**	(38,614)

The notes on pages 35 to 45 form an integral part of these financial statements.

The financial statements on pages 26 to 45 were approved by the Board of Directors and authorised for issue on 20 June 2018 and were signed on its behalf by:

John Fickling
Non-executive Chairman
20 June 2018

CONSOLIDATED CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 MARCH 2018

	Notes	**Year ended 31 March 2018 £'000**	Year ended 31 March 2017 £'000
Operating activities			
Cash absorbed by operations	21	**(16,182)**	(8,839)
Interest paid	4	**(2,015)**	(2,820)
Net cash used in operating activities		**(18,197)**	(11,659)
Investing activities			
Purchase of property, plant and equipment		**(409)**	(1,284)
Purchases of HP assets		**—**	—
Internal capitalised costs		**(1,031)**	(881)
Net cash used in investing activities		**(1,440)**	(2,165)
Financing activities			
Issue of ordinary shares		**58,225**	—
Finance lease repayments		**(26)**	(64)
Proceeds from new loan		**10,684**	10,131
Repayment of loans		**(53,003)**	—
Net cash generated from financing activities		**15,880**	10,067
Net decrease in cash and cash equivalents		**(3,757)**	(3,757)
Cash and cash equivalents at start of year		**(8,748)**	(4,991)
Cash and cash equivalents at end of year	24	**(12,505)**	(8,748)

The notes on pages 35 to 45 form an integral part of these 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 £14.7m in the year ended 31 March 2018 (2016/17: £15.7m); however, with the debt to equity conversion discussed below the Group now has net assets of £4.9m (2016/17: net liability £38.6m).

The Group has conducted a thorough review of its strategy for the next five years and put forward updated trading forecasts through to March 2023, 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 Limited. 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 Limited, the parent company. Ashok Leyland Limited has indicated that it will provide such financial and other support as is required to support the business plan of the Company.

The Company meets its day-to-day working capital requirements through a bank overdraft facility and term loan. These facilities were successfully replaced during the year with the overdraft facility moving from Barclays Bank PLC to ICICI Bank UK PLC and the term loan facility also moving from Barclays Bank PLC but to Citibank Europe PLC. During the year the Company has also been reliant on funds provided by Ashok Leyland Limited (the immediate parent company).

On 7 November 2017 the Company held a General Meeting to propose to shareholders the conversion of the £30,725,000 of debt provided by Ashok Leyland Limited to equity by way of ordinary share issue of 30,725,000,000 shares. In addition to this a further subscription for up to 35,000,000,000 of new ordinary shares to Ashok Leyland Limited was proposed so as to facilitate the repayment of the majority of the external debt. All resolutions were successfully passed at the General Meeting.

The ordinary share issue to convert Ashok Leyland Limited's debt to equity took place in November 2017 and the ordinary share issue to facilitate the repayment of external debt took place in March 2018.

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 Limited. 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 IFRS and amendments to International Accounting Standards

IFRS 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. The standard also introduces an expected loss model, rather than an incurred loss model in respect of financial assets. The Group is currently assessing the impact of the change in loss model but 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 continuing to assess the potential impact of the new standard. At this stage, the Group does not anticipate any significant changes to its revenue recognition in terms of the revenue streams from sale of vehicles and parts; however, work is ongoing to assess the accounting for long-term fleet servicing and maintenance contracts.	1 January 2018
IFRS 16	Leases replaces IAS 17; the Group is evaluating the impact of the new standard, which will result in the Group recognising lease liabilities, and corresponding "right to use" assets, for agreements that are currently classified as operating leases. See note 20 for further details on operating leases currently held.	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 servicing, maintenance and 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. The Group also engages in longer-term fleet servicing and maintenance contracts. The revenue from these maintenance contracts is currently spread over the term of the contract.

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.

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.

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, 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 and judgements that have a significant impact on the carrying value of assets and liabilities are discussed below:

Provision for warranty claims

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

1. Business and geographical segments and customer concentration

	Year ended 31 March 2018 £'000	Year ended 31 March 2017 £'000
Business segment analysis of revenue is as follows:		
Sale of goods	**18,809**	27,405
Rendering of services	**8,065**	7,556
Total revenue	**26,874**	34,961

	Year ended 31 March 2018 £'000	Year ended 31 March 2017 £'000
Geographical analysis of revenue is as follows:		
UK	**23,542**	30,704
Other European	**156**	181
Non-EU	**3,176**	4,076
Total revenue	**26,874**	34,961

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 9% of revenue (2016/17: 12% of revenue).

2. Loss from operations

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

	Year ended 31 March 2018 £'000	Year ended 31 March 2017 £'000
Net foreign exchange (gain)/loss	**(5)**	(233)
Cost of inventories recognised in cost of sales	**17,065**	23,923
Net release of inventory provision (see note 11)	**(434)**	25
Depreciation:		
– owned assets	**892**	812
– leased assets	**24**	27
Loss on disposal of fixed assets	**—**	170
Amortisation of intangible assets	**1,416**	1,400
Rental under operating leases	**1,008**	1,082
Staff costs	**10,230**	9,282
Impairment of goodwill	**4,304**	4,270
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**	56
Non-audit services:		
– services relating to tax services – compliance	**—**	10
	56	66

3. 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 2018 Number	Average for year ended 31 March 2017 Number
Production	**202**	205
Head office and administration	**115**	115
	317	320

The aggregate remuneration for the above people comprised:

	Year ended 31 March 2018 £'000	Year ended 31 March 2017 £'000
Directors' emoluments*	**74**	74
Wages and salaries	**8,820**	7,923
Social security costs	**835**	813
Other pension costs	**501**	472
	10,230	9,282

* Details of Statutory Directors' fees and salaries, bonuses, pensions, benefits in kind and other benefit schemes are given in the Directors' remuneration report on page 18. Details of Directors' current share options and existing share ownership are given in the Directors' Share Options summary on page 19.

4. Finance costs

	Year ended 31 March 2018 £'000	Year ended 31 March 2017 £'000
Interest on bank overdrafts and loans	**331**	705
Interest on loans from Ashok Leyland Limited and related companies	**1,672**	2,100
Interest on obligations under finance leases	**12**	15
Other interest	**—**	—
Total borrowing costs	**2,015**	2,820

5. Taxation

	Year ended 31 March 2018 £'000	Year ended 31 March 2017 £'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 19%, will reduce 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 2018 £'000	Year ended 31 March 2017 £'000
Loss on ordinary activities before tax	**(14,714)**	(15,716)
Tax at the domestic income tax rate	**(2,796)**	(3,143)
Tax effect of expenses that are not deductible in determining taxable profit	**818**	824
Tax losses not utilised	**1,978**	2,319
Tax credit for the period	**—**	—

6. Dividends

The Directors do not propose the payment of a dividend in respect of the current period (2016/17: £nil).

7. 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.

8. Goodwill

	Year ended 31 March 2018 £'000	Year ended 31 March 2017 £'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	**4,396**	126
Impairment in the year	**4,304**	4,270
At the end of the period	**8,700**	4,396
Carrying amount at the end of the period	**–**	4,304

Goodwill arose on the 2008 purchase of Jamesstan Investments Ltd. The Directors consider there is only one cash-generating unit (CGU), being the whole Group.

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 2023 and extrapolation for later periods.

The growth assumptions (significant 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 develop export markets for existing products and maintain its market share of single deck diesel vehicles in the UK, as well as grow its single deck electric vehicle presence in the UK also.
- Introduction of new products – Optare will continue to pursue the introduction of the existing Metrodecker.

A risk adjustment is then made using a pre-tax discount rate of 8.3% to arrive at the value in use.

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 £4,304,000 is required.

9. Other intangible assets

	Vehicle related intangible assets £'000	Customer related intangible assets £'000	Total £'000
Cost			
At 31 March 2016	11,445	608	12,053
Additions – internally generated	882	—	882
Disposals	—	—	—
At 31 March 2017	12,327	608	12,935
Additions – internally generated	1,031	—	1,031
Disposals	—	—	—
At 31 March 2018	**13,358**	**608**	**13,966**
Amortisation			
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
Charge for the year	1,416	—	1,416
Disposals	—	—	—
At 31 March 2018	**5,976**	**608**	**6,584**
Carrying amount			
At 31 March 2018	**7,382**	**—**	**7,382**
At 31 March 2017	7,767	—	7,767
At 31 March 2016	8,145	140	8,285

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.

10. 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 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
Additions	39	176	77	123	415
Disposals	—	—	(6)	—	(6)
At 31 March 2018	**1,748**	**2,050**	**3,556**	**466**	**7,820**
Depreciation and impairments					
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
Charge for the year	174	150	584	8	916
Disposals	—	—	—	—	—
At 31 March 2018	**975**	**1,855**	**1,630**	**102**	**4,562**
Net book value					
At 31 March 2018	**773**	**195**	**1,926**	**364**	**3,258**
At 31 March 2017	908	169	2,439	249	3,765
At 31 March 2016	1,087	251	1,737	254	3,329

* 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 £1,359,249 (2016/17: £1,679,737).

The net book value of assets held under finance leases and hire purchase agreements is £177,585 (2016/17: £266,675).

11. Inventories

	Year ended 31 March 2018 £'000	Year ended 31 March 2017 £'000
Raw materials and consumables	**6,238**	4,488
Work in progress	**4,923**	2,957
Finished goods	**7,678**	1,330
Stock impairment provision	**(1,213)**	(1,647)
Total	**17,626**	7,128

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 2018 £'000	Year ended 31 March 2017 £'000
Opening provision	**1,647**	1,622
Provisions made during the year	**65**	25
Provisions utilised during the year	**(499)**	—
Total	**1,213**	1,647

12. Trade and other receivables

	Year ended 31 March 2018 £'000	Year ended 31 March 2017 £'000
Trade receivables	**1,734**	4,010
Allowance for estimated irrecoverable amounts	**(99)**	(360)
Net trade receivables	**1,635**	3,650
Other receivables and prepayments	**4,140**	575
Total	**5,775**	4,225

Trade receivables past due but not impaired at the period end totalled £370,808 (2016/17: £640,542). 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 2018 were 22 days (2016/17: 38 days).

Ageing of past due but not impaired receivables:

	Year ended 31 March 2018 £'000	Year ended 31 March 2017 £'000
0–30 days	**158**	251
30–180 days	**198**	346
180–365 days	**7**	28
Greater than one year	**8**	16
Total	**371**	641

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

	Year ended 31 March 2018 £'000	Year ended 31 March 2017 £'000
Opening provision	**360**	386
Provisions made during the year	**19**	—
Provisions utilised during the year	**(281)**	(26)
Total	**99**	360

13. Trade and other payables

	Year ended 31 March 2018 £'000	Year ended 31 March 2017 £'000
Trade payables	**6,766**	5,515
Social security and other taxes	**307**	253
Accruals and deferred income	**4,164**	1,869
	11,237	7,637

Creditor days as at 31 March 2018 were 35 (2016/17: 46 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, £598,363 (2016/17: £13,969) was denominated in foreign currencies, principally in Euros.

14. Provisions

	Warranty provision £'000	Total provisions £'000
At 31 March 2017	4,000	4,000
Additional provision	821	821
Utilisation of provision	(1,436)	(1,436)
At 31 March 2018	**3,385**	**3,385**
Under one year provision	1,038	1,038
Over one year provision	2,347	2,347
At 31 March 2018	**3,385**	**3,385**

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.

15. Obligations under finance leases

	Minimum lease payments year ended 31 March 2018 £'000	**Present value of lease payments year ended 31 March 2018 £'000**	Minimum lease payments year ended 31 March 2017 £'000	Present value of lease payments year ended 31 March 2017 £'000
Amounts payable under finance leases:				
– within one year	**25**	**23**	25	20
– within two to five years	**31**	**26**	57	22
	56	**49**	82	42

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 (2016/17: 13.9%).

16. Deferred tax

At the reporting date, the Group has unused tax losses of £90,932,122 (2016/17: £80,522,757) available for offset against future profits. A deferred tax asset of £17,277,103 at a tax rate of 19% (2016/17: £16,104,551 at 20%) has not been recognised in respect of these losses due to the unpredictability of future profit streams.

17. 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 2017	—	2,235,291,827	752,145,493	9,004,601
Shares issued	—	58,225,000,000	—	58,225,000
At 31 March 2018	**—**	**60,460,291,827**	**752,145,493**	**67,229,601**

On 7 November 2017 Optare plc (the immediate parent company) held a General Meeting to propose to shareholders the conversion of the £30,725,000 of debt provided by Ashok Leyland Limited to equity by way of ordinary share issue of 30,725,000,000 shares. In addition to this a further subscription for up to 35,000,000,000 of new ordinary shares to Ashok Leyland Limited was proposed so as to facilitate the repayment of the majority of the external debt. All resolutions were successfully passed at the General Meeting.

During November 2017 Ashok Leyland Limited accepted 30,725,000,000 ordinary shares at par in a debt to equity conversion. Subsequent to this ordinary share issue Ashok Leyland Limited subscribed to an additional 27,500,000,000 ordinary shares at par in March 2018.

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.

17. Share capital continued

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.

18. 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 £501,147 (2016/17: £472,000) represents contributions payable to these schemes by the Group at rates specified in the rules of the schemes. As at 31 March 2018, contributions of £nil (2016/17: £nil) due in respect of the current reporting period had not been paid over to the schemes.

19. 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.

	2018		2017	
	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 2018 had an exercise price between 1.0p and 4.15p (2016/17: between 1.0p and 4.15p) and a weighted average remaining contractual life of 1.25 years (2016/17: 2.3 years).

On 25 June 2012 128,739,439 warrants were issued to Ashok Leyland Limited and its associated companies Ashley Holdings Limited and Ashley Investments Limited. On 10 August 2013 a number of these warrants lapsed. These warrants give Ashok Leyland Limited 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 Limited warrants or share options are exercised. At 31 March 2018 18,581,735 warrants were outstanding.

In 2017/18 fair value warrants were issued to Ashok Leyland Limited companies of £nil (2016/17: £nil).

20. Operating lease arrangements

The Group as a lessee

Commitments under non-cancellable leases for:

	Year ended 31 March 2018 £’000	Year ended 31 March 2017 £’000
Buildings	**7,352**	7,285
Other	**467**	437
	7,819	7,722

During the year £1,007,632 was recognised as an expense in the profit and loss account in respect of operating leases (2016/17: £1,081,702).

20. Operating lease arrangements continued

The Group as a lessee continued

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

	Year ended 31 March 2018 £'000	Year ended 31 March 2017 £'000
Amounts due within one year	**908**	914
Amounts due between one and five years	**3,376**	2,993
Amounts due after more than five years	**3,535**	3,815
	7,819	7,722

21. Net cash from operating activities

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

	Year ended 31 March 2018 £'000	Year ended 31 March 2017 £'000
Operating activities		
– loss before tax	**(14,714)**	(15,716)
Adjustments for		
– depreciation	**916**	839
– amortisation of intangible assets	**1,416**	1,400
– impairment of goodwill	**4,304**	4,270
– net finance expense	**2,015**	2,820
– loss on disposal of property, plant and equipment	**—**	170
Operating cash flows before movements in working capital	**(6,063)**	(6,216)
Changes in working capital		
– increase in inventories	**(10,498)**	(299)
– increase in trade and other receivables	**(1,550)**	(1,732)
– increase/(decrease) in trade and other payables	**2,544**	(1,028)
– (Decrease)/increase in provisions	**(615)**	436
Total increase in working capital	**(10,119)**	(2,623)
Net cash absorbed in operating activities	**(16,182)**	(8,839)

22. Post-period-end events

There have been no significant events post the balance sheet date.

23. 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. Total emoluments and compensation for the SC consists of £598,712 for the year ended 31 March 2018; a breakdown of 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.

On 7 November 2017 Optare plc (the immediate parent company) held a General Meeting to propose to shareholders the conversion of the £30,725,000 of debt provided by Ashok Leyland Limited to equity by way of ordinary share issue of 30,725,000,000 shares. In addition to this a further subscription for up to 35,000,000,000 of new ordinary shares to Ashok Leyland Limited was proposed so as to facilitate the repayment of the majority of the external debt. All resolutions were successfully passed at the General Meeting.

The ordinary share issue to convert Ashok Leyland Limited's debt to equity took place in November 2017 and the ordinary share issue to facilitate the repayment of external debt took place in March 2018.

The Company also repaid a £0.9m short-term loan facility from Ashok Leyland (UAE) Limited in April 2017.

The major shareholder, Ashok Leyland Limited, is providing key employee resource to support the business. The charge was £53,275 in this year's results (2016/17: £nil). The cost of this expense that remained outstanding at the period end was £nil (2016/17: £nil).

During the year there was no sale of development vehicles by the Company to Ashok Leyland Limited (2016/17: £nil).

24. Financial instruments

	Year ended 31 March 2018 £'000	Year ended 31 March 2017 £'000
Current financial liabilities		
Bank overdrafts	**12,750**	8,748
Bank loans	**1,961**	–
Related party short-term loans	**–**	913
	14,711	9,661
Non-current financial liabilities		
Bank loans	**–**	15,000
Related party term loans	**–**	29,423
	–	44,423
Net debt total	**14,711**	54,084
Analysis of borrowings by currency		
US Dollar – loans	**–**	913
Sterling – overdraft	**12,750**	8,748
Sterling – loans	**1,961**	44,423
	14,711	54,084

The fair value of borrowings is not significantly different to the carrying value. The bank loan borrowings are at a floating rate of 1.05% over the GBP three-month London Interbank Offered Rate. The bank overdrafts are at a floating rate of 1.05% over the Bank of England base rate.

	Year ended 31 March 2018 £'000	Year ended 31 March 2017 £'000
Bank overdrafts	**12,750**	8,748
Cash	**(245)**	–
Cash and cash equivalents at end of year	**12,505**	8,748

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 Limited 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.

24. 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 2018 the Group had net assets of £4,9m, compared to net liabilities of £38.6m at 31 March 2017. The net debt of the Group was £14.7m at 31 March 2018 compared to £54.1m at 31 March 2017 as follows:

	Year ended 31 March 2018 £'000	Year ended 31 March 2017 £'000
Bank loans and overdrafts	**14,711**	23,749
Related party loans	**—**	30,335
	14,711	54,084

Gearing ratio at the year end is as follows:

	2018 £m	2017 £m
Debt	**14.7**	54.1
Cash and cash equivalents	**(0.2)**	—
Net debt	**14.5**	54.1
Capital	**19.6**	15.5
Net debt to capital ratio	**74%**	349%

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.

25. Parent company and ultimate controlling party

The Directors consider Ashok Leyland Limited 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 2018

	Notes	As at 31 March 2018 £'000	As at 31 March 2017 £'000
Fixed assets			
Investments	26	**15,220**	19,524
Fixed assets	27	**–**	–
		15,220	19,524
Current assets			
Debtors (including £77,349k (2017: £61,709k) due after more than one year)	28	**78,888**	61,869
		78,888	61,869
Creditors: amounts falling due within one year	30	**(19,151)**	(1,894)
Net current liabilities		**74,957**	59,975
Non-current liabilities			
Bank and other loans	31	**–**	(58,641)
Net assets		**74,957**	20,858
Capital and reserves			
Share capital	19	**67,230**	9,005
Capital reserves		**36,832**	36,832
Share-based payment reserve		**42**	42
Retained loss		**(29,147)**	(25,021)
Total equity		**74,957**	20,858

The Company's loss after tax for the period was £4,126,163 (2016/17: £4,423,809 loss).

The notes on pages 49 and 50 form an integral part of these financial statements.

The financial statements on pages 46 to 50 were approved by the Board of Directors and authorised for issue on 20 June 2018 and were signed on its behalf by:

John Fickling
Non-executive Chairman
20 June 2018

COMPANY STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 MARCH 2018

	Share capital £'000	Capital reserve £'000	Retained loss £'000	Share-based payment reserve £'000	Total £'000
Balance at 31 March 2016	9,005	36,832	(20,597)	42	25,282
Loss for the year	—	—	(4,424)	—	(4,424)
Total comprehensive loss for the year	—	—	(4,424)	—	(4,424)
Balance at 31 March 2017	9,005	36,832	(25,021)	42	20,858
Issue of ordinary shares	58,225	—	—	—	58,225
Loss for the year	—	—	(4,126)	—	(4,126)
Total comprehensive loss/equity movement for the year	58,225	—	(4,126)	—	54,099
Balance at 31 March 2018	**67,230**	**36,832**	**(29,147)**	**42**	**74,957**

The notes on pages 49 and 50 form an integral part of these financial statements.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
IN RESPECT OF THE COMPANY FINANCIAL STATEMENTS

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

Basis of preparation

The financial statements have been prepared in accordance with applicable accounting standards under 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 and financial instruments and 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.

26. Investments

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

	Share in subsidiary undertakings £'000
Cost	
At 31 March 2017	39,923
Additions	–
At 31 March 2018	**39,923**
Impairment	
At 31 March 2017	20,399
Charge for the year	4,304
At 31 March 2018	**24,703**
Carrying amount	
At 31 March 2017	19,524
At 31 March 2018	**15,220**

Details of the Company's subsidiaries at 31 March 2018 are shown in note 7.

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 8 of the consolidated financial statements. Based on this review the Directors have concluded that an impairment of £4,304,000 is required.

27. Fixed assets

	Fixtures and fittings £'000
Cost	
At 31 March 2017	16
Additions	–
At 31 March 2018	**–**
Depreciation	
At 31 March 2017	16
Charge for the year	–
At 31 March 2018	**–**
Net book value at 31 March 2017	–
Net book value at 31 March 2018	**–**

28. Debtors

	Year ended 31 March 2018 £'000	Year ended 31 March 2017 £'000
Amounts owed by Group undertakings	**78,349**	61,709
Prepayments	**499**	160
Social security and other taxes	**40**	–
Total	**78,888**	61,869

	Year ended 31 March 2018 £'000	Year ended 31 March 2017 £'000
Due within one year	**539**	160
Due after more than one year	**78,349**	61,709
Total	**78,888**	61,869

29. Operating lease arrangements

Annual commitments under non-cancellable leases for:

	Year ended 31 March 2018 £'000	Year ended 31 March 2017 £'000
Buildings – expiring after five years	**6,566**	6,951

30. Creditors: amounts falling due within one year

	Year ended 31 March 2018 £'000	Year ended 31 March 2017 £'000
Overdraft	**2,710**	752
Bank loans	**1,962**	–
Loans from parent undertaking	**–**	–
Trade creditors	**100**	63
Amounts payable to subsidiary undertakings	**13,306**	–
Social security and other taxes	**–**	1
Accruals and deferred income	**1,073**	1,078
	19,151	1,894

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

	Year ended 31 March 2018 £'000	Year ended 31 March 2017 £'000
Bank loans	**–**	15,000
Loans from parent undertaking	**–**	30,335
Amounts payable to subsidiary undertakings	**–**	13,306
	–	58,641

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 Matthew 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

20 June 2018

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

Dear shareholder

2018 Annual General Meeting of Optare plc (the "Company")

1. Introduction

I am pleased to be writing to you with details of the Company's 2018 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 Monday 17 September 2018 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 resolution 2 – Re-appointment and remuneration of auditor

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

2018 Annual General Meeting of Optare plc (the "Company") continued

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, Link 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 13 September 2018. 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
20 June 2018

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 Monday 17 September 2018 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 2018 together with the reports of the Directors and auditor thereon.
2. To re-appoint KPMG LLP as auditor of the Company and to authorise the Directors to determine its remuneration.

By order of the Board

Abhijit Mukhopadhyay
Company Secretary
1 August 2018

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 13 September 2018; 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, Link 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 Link 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 Link Asset Services as set out in note 3 above. Please indicate the proxy holder's name and the number of shares in relation to which they are authorised to act as your proxy (which, in aggregate, should not exceed the number of shares held by you). Please also indicate if the proxy instruction is one of multiple instructions being given. All forms must be signed and should be returned together in the same envelope.

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

   5.1 completed and signed;

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

   5.3 received by Link Asset Services no later than 11.00am on 13 September 2018 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.

Notes continued

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 13 September 2018. 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 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 17 September 2018 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 2018 together with the reports of the Directors and auditor thereon.			
2. To re-appoint KPMG LLP as auditor of the Company and to authorise the Directors to determine its remuneration.			

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

Number of shares proxy appointed over: ☐

Signature .... Date ....

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 13 September 2018. 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 Link 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 13 September 2018.
7. If you prefer, you may return this Form of Proxy to the registrar in an envelope addressed to FREEPOST LINK PXS, 34 Beckenham Road, Beckenham, BR3 9ZA. 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.

ADVISERS

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

Company secretary
Abhijit Mukhopadhyay

Nominated adviser and broker
Cenkos Securities plc
6–8 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
Link Asset Services
The Registry
34 Beckenham Road
Beckenham
Kent BR3 4TU

Produced by
designportfolio

Optare plc
Unit 3
Hurricane Way South
Sherburn in Elmet
North Yorkshire LS25 6PT

Tel: +44 (0) 8434 873 200
Fax: +44 (0) 8434 873 201
Email: info@optare.com