



Torotrak plc
Annual Report
2011

TOROTRAK

Driving Change

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Torotrak – who we are and 2011 highlights

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Strategy and delivery against our commitments last year

How has Torotrak fared against last year's objectives?

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Reporting on progress

An update on the progress we're making and the opportunities available to us in our key business areas.

See pages 14-23

Innovative thinking

Unveiled at the Geneva Motor Show, the Tata Pixel demonstrates the potential of Torotrak's technology in the urban car market.

See page 17



Low-carbon technology enabled

A consortium programme in which our gearless drive technology linked to a high speed flywheel delivers significant improvements in fuel economy and CO₂ emissions for a premium saloon car.

See page 19



Defining our voice: the Torotrak rebrand

The thinking behind our rebrand, ensuring that Torotrak is more visible and better understood in all our markets as we move towards the commercialisation of our technology.

See page 21



New Joint venture: product on test within 8 months

Our partnership with Rotrex has moved at great pace, accelerating the potential alternative to current turbocharging systems that will improve fuel efficiency for the engines of the future.

See page 23



Driving Change

Torotrak is the global innovator in gearless traction drive technology to reduce CO₂ emissions in vehicles. Our technology substantially improves fuel economy in vehicles, harnesses the power of supercharging to reduce engine size and enables wasted energy to be recovered efficiently through flywheels.

Our aim is to take Torotrak technology from the test-track to the road, field or workplace, putting proven innovations into mass production. Over the past year, we've shown how our cleaner transmission technology can reduce CO₂ emissions, conserve energy, save costs and significantly boost efficiency. Now our journey is entering a new phase, driving real change in the world of transport.

Financial and operational highlights

Financial highlights

- Timing and level of licence payments and restructuring costs results in increased loss after tax of £3.1 million, as expected
- Restructuring of Infinitrak JV leads to a net £0.2 million positive contribution and reduced expenditure going forward
- Cash of £8.3 million at year end strengthened post year end by £3.5 million licence payment from Allison Transmissions Inc ("Allison") in April 2011, recovering much of the £4.8 million operating cash outflow in the year
- One-off restructuring charges of £0.7 million in the year expected to yield cash savings of £1.4 million in first year (£1.8 million annualised)

Operational highlights

- Substantial engineering programmes with our two lead commercial vehicle customers lead to successful installation of prototype transmissions in each customer's vehicle
- Allison committed in April 2011 to £8.0 million in further licensing and Torotrak engineering support, moving to a multi-stage, production-intent, transmission programme
- Torotrak gearbox technology installed in Tata's Pixel concept car, highlighting opportunities in the small car market
- Rapid progress with our key partners in developing Torotrak technology in engine downsizing and enhanced stop start hybrid systems

	2011 £m	Restated 2010 £m
Revenue	5.1	7.6
Operating cash outflow	(4.8)	(1.1)
Year end net cash	8.3	13.1
Operating (loss)/profit before restructuring charges	(2.9)	0.7
(Loss)/profit after tax	(3.1)	0.4

The Year In Numbers

5,000
Engineering man days for European Truck and Bus Manufacturer and Allison
p.16

Working with partner companies throughout the world
7
countries
p.16



1,460
Man days spent on collaborative clean energy sponsored projects
p.22



6 to 4
Board reduced from 6 directors to 4
p.5

Number of new patent families
6
p.5

Number of parts designed in the year - in excess of
1,800
p.5

£8.3m
Cash at the year end and £3.5 million received just after year end
p.24

Cash received following Infinitrak restructuring
£1m
p.25

12500
12500 concept car unveiled at 2011 Geneva Motor Show
p.17



Rotrak supercharger speed at full power
175,000
rpm
p.23



£1.4m
First year savings following restructure (£1.8 million annualised)
p.25

7
Production suppliers for discs, rollers and fluid working with Torotrak
p.10

Commitments and Delivery

Last year we said we would

Build visible value by focusing on the most material opportunities.

Support Allison in completing the first prototype in vehicle and achieve commitment to next steps.

Progress our European Truck and Bus Manufacturer's turn key programme through to completion in 2011.

Launch Infinitrak technology in market areas that command a premium, in volumes that are meaningful.

Progress the Rotrak joint venture through a jointly funded programme to demonstrate the revolutionary potential of a cost effective form of variable drive supercharger in a vehicle.

Progress the cost effective and emission reducing flywheel hybrid technology through our collaboration with other partners.

Deliver a proof of concept prototype flywheel hybrid (as described above) for application in a bus in the first half of 2011.

Maintain funding strength and resilience.

Reduce the level of engineering 'turn key' programmes in order to focus our engineering resources on areas where we can add real value.

Gradually reduce our cost base during the year ending 31 March 2011 by focusing customer programmes more on production intention and working more closely with partners to share development costs.

During the financial year we have

Built, tested and validated commercial vehicle transmissions in our two lead customer's separate vehicles (see p.16). Progressed our programmes re variable drive supercharger and mechanical hybrid technology, showing strong commercial potential. Tata Motors concept car incorporating our technology displayed at Geneva Show (see p.17).

Prototype programme successfully completed and secured £8 million commitment from Allison to progress commercial vehicle technology towards production (see p.16).

Installation of a transmission into a truck triggering a £0.3 million milestone payment. Transmission now being installed in a bus (see p.16).

Infinitrak joint venture restructured, enabling Torotrak's strategic objectives to be served better by alternative licensing routes (see p.16).

Rotrak unit has been designed, built and tested on rig and is in the process of installation in a vehicle. We expect to be giving industry demonstrations later this year (see p.23).

The compelling benefits of a Torotrak variable drive linked with a flywheel have been demonstrated, working with technology partners Flybrid Systems and Ricardo (see p.20). We will now progress to the next stage of prototype.

This programme is attracting considerable industry interest. Although delayed by several months, a representative prototype should now be delivered in the second half of 2011 (see p.20).

Robust year end cash balance of £8.3 million, topped up by a £3.5 million licence payment in April 2011.

Torotrak no longer pursues 'turn key' programmes and selects opportunities based on tangible commitments from the customer and/or partner we are working with.

Torotrak has restructured its organisation and its Infinitrak joint venture. Reduced cash costs of £1.8 million on an annualised basis (see p.24).

Chairman's Review

“Torotrak is in a strong financial position and entering a new phase in the commercialisation of its technology.”



John Grant – Chairman

In this, my last report to shareholders, I am pleased to record that Torotrak has had a successful year, building on the new strategic focus described in last year's Annual Report and delivering significant progress, particularly in our important commercial vehicle and energy efficiency programmes. Our strategy and our people are generating tangible results, and the reputation and awareness of our Company and its technology among the industries we serve is stronger than ever before.

Results

For the year to 31 March 2011, revenue was £5.1 million, reduced from last year's £7.6 million mainly because of the timing of lump sum licence fees. Lower revenues and £0.7 million of restructuring costs resulted in an after tax loss of £3.1 million for the year (2010: £0.4 million profit). Operating cash flow, also reflecting the timing of licence payments, was negative by £4.8 million (2010: £1.1 million), although it should be noted that a further £3.5 million licence fee was received from Allison Transmission Inc (“Allison”) shortly after the year end.

Cash of £8.3 million at the end of the year (2010: £13.1 million), taken together with the additional licence fees contracted with Allison over the coming year, leaves the Company in a strong position to deliver its plans for commercialisation.

Further explanation of these results is provided in the Financial Review.

Business developments

A year ago, I indicated that Torotrak would increase its commitment of resources to delivering

programmes for our high-value customers and to developing applications of our technology in the rapidly growing markets for efficiency enhancing devices to reduce CO₂ emissions. I am pleased to report that the Company has made significant progress in its highest value projects and we sense real momentum in several energy efficiency opportunities.

Co-operative programmes with both of our major commercial vehicle licensees, Allison and the as-yet-unnamed European Truck and Bus Manufacturer (“ETBM”), have continued to achieve their project milestones. In both cases, prototype transmissions are now undergoing in-vehicle testing, with encouraging early results and positive reactions from our licensees. In April 2011, we concluded licence and engineering agreements with Allison to start development of a production intent design – reinforcing the commitment to our technology by the world's largest producer of automatic transmissions for trucks. This brings Allison's cumulative commitment to licence and engineering fees to £18.0 million since March 2009.

In the energy efficiency space, several programmes are advancing. Our joint venture company, Rotrak, is developing a variable drive supercharger to provide a more efficient and cost-effective solution to the pressure charging of smaller engines, which is the direction being pursued by many vehicle manufacturers to improve fuel efficiency without compromising performance. A first prototype is now running on a test rig and will shortly be installed in a small car.

The UK Government-sponsored Flywheel Hybrid System for Premium Vehicles (“FHSPV”) project for a flywheel-based kinetic energy recovery system, using a Torotrak variable drive transmission to enhance the performance of mechanical hybrid vehicles, has demonstrated double-digit improvement in fuel economy. This has encouraged our partners, including Jaguar Land Rover, to support the next phase of development. The similar ‘Flybus’ programme for buses is continuing to develop a prototype unit, although timing has been delayed by several months due to the need for further development in an area of the system not related to the drive technology.

For some time, we have seen the potential for a low-cost version of a Torotrak transmission to be used in small cars to enhance fuel efficiency and

Chairman's Review continued

driveability. We were therefore pleased by the interest generated by our licensee, Tata Motors, when it displayed a concept city car (the Tata Pixel) at the Geneva Motor Show in March 2011 using the Torotrak transmission with its 'zero turn' capability. Although there are as yet no plans for production commitment, this concept has helped to highlight the relevance of Torotrak's technology for small cars.

We announced in January 2011 that we had agreed with our partner, the MTD Holdings Group ("MTD"), to replace the Infinitrak joint venture with a new non-exclusive licence for MTD to produce transmissions for its own lawn and garden products. This will be financially beneficial to Torotrak in avoiding future manufacturing investment, reducing development costs and opening up other potential licensing opportunities. Torotrak also benefitted from \$1.6 million paid by MTD on completion of these agreements.

Further details are in the Financial Review.

Torotrak team

As the cycle of development of Torotrak's technology has reached the point where more of the future development burden will be carried by our partners and licensees, the Board decided that the organisation should be streamlined by a substantial restructuring, which has now been implemented. This has involved thinning out senior manager roles and delegating more responsibility for innovation, business development and programme management to three newly defined engineering product director roles reporting directly to the Chief Executive. In addition, the number of administrative and support functions has been reduced. This is expected to reduce the cost base by some £1.4 million in the year to March 2012 compared with implementation costs of £0.7 million (charged in the year to March 2011). Annualised savings are expected to be in the order of £ 1.8 million. Crucially, the ability to innovate and support our customers and licensees will be fully maintained.

Consistent with this organisation philosophy, we decided that the re-organisation should be led by reducing the size of the Board. We have eliminated one executive and one non-executive position, resulting in a board comprising just two executives - the Chief Executive and the Finance Director (who also takes over commercial responsibilities) - and

two non-executives - a non-executive chairman and one independent non-executive director. Whilst this will inevitably entail some compromise when measured against the 'ideal' corporate governance criteria, the Board concluded that this was the right approach for a lean organisation and that high corporate governance standards can be maintained by a four-person board exercising appropriate discipline.

I would like to express the Board's appreciation to the entire Torotrak team, including those who will be leaving as part of the restructuring, for the enormous progress made in the last year. In particular, I thank James Batchelor, previously Commercial Director, and David MacKay, previously Non-Executive Director, for their important contributions to the Board and the Company over the past years and for leading from the front by agreeing to step down from the Board as part of the restructuring.

Outlook

Torotrak is in good organisational shape. It has a wide array of licensees, including several world class businesses, and a technology that is increasingly recognised as providing CO₂ emissions reduction in a variety of applications. The Board is confident that the business focus is delivering tangible successes and that the strategy for commercialisation, based on a sound and sufficient level of funding, will deliver for our shareholders.

Chairmanship

I have greatly enjoyed my thirteen years at Torotrak, including almost six years as Chairman. We have encountered many challenges over this period but the Company today has a clear strategic direction, a strong reputation in its target markets and growing business momentum.

With Torotrak in a strong financial position, and now entering a new phase in the commercialisation of its technology, I believe the time is right for me to hand over to a new Chairman with a fresh perspective. The Board is delighted to have attracted someone of the calibre and experience of John Weston to take over the chairmanship from 1 June 2011.

I wish him and the Company success in the coming years.

"The Company today has a clear strategic direction, a strong reputation in its target markets and growing business momentum."

Introducing the Incoming Chairman

“I joined Torotrak as I’m enthused by working with the team in taking the technology into the market.”



John Weston – Incoming Chairman

“Torotrak is at a fascinating stage where its innovative engineering can now be converted into manufactured products on a significant scale. What interests me is building shareholder value on the back of this.”

John Weston joins Torotrak as Chairman on 1 June 2011. He began his career at BAE as an undergraduate engineering apprentice in 1970 and subsequently progressed through increasingly senior positions. During his time at BAE, he held many major roles within the company, serving as Project Director for the transformational £30 billion Al-Yamamah programme in the Middle East, Group Managing Director of BAE’s defence activities, and ultimately as Group Chief Executive. John left BAE Systems in 2002 and since then he has been working with private equity backers, holding board positions at a variety of companies. These currently include AWS Group Holdings Limited, Brittpac Limited, MB Aerospace Holdings Limited, Acra Controls Limited and most recently Lo-Q plc.

You join at a key point in the development of the business – what attracted you to the role?

I was interested in Torotrak’s technology and what the company was trying to achieve. The other three main deciding factors were:

- 1 I believed I could make a difference to Torotrak
- 2 I was enthused by the prospect of working with the management team in taking the technology into the market and
- 3 I considered Torotrak’s business plan to be very credible, and one to which I could add real value.

Introducing the Incoming Chairman *continued*

What do you feel are the challenges that face Torotrak?

The challenges facing Torotrak are typical of companies that are introducing a new type of product or technology. Where there is already an established technology for delivering the required performance, there are many vested interests aligned with the incumbent. However, Torotrak is well placed to disrupt the market thanks to its impressive customer list as well as growing awareness of the pressing need to reduce emissions, backed by some tough legislation. The key challenges will be prioritisation and making the right strategic choices about how best to commercialise the technology.

What do you feel are your key strengths in supporting Torotrak's growth and path to commercialisation?

I have been fortunate enough to have had a very varied career with time spent in both large corporations and smaller companies, working in the quoted sector as well as in private equity. Significantly, all of these roles have been in engineering and technology, as these are areas that I am extremely passionate about.

I have also been involved in programmes for significant change, as well as driving performance in difficult circumstances. The best examples of these are: leading the sales engineering effort that secured BAE's programme in Saudi Arabia; working with the UK Government to secure the future of the Eurofighter Typhoon in the early 1990s; restructuring BAE's defence business following the end of the Cold War (reducing costs by 30% and increasing profit by 70%); and, helping to turn around and rescue i-soft.

What are the main lessons you have learned about getting technology from the drawing board to production?

The management of development programmes and the handling of risk are critical features to the successful delivery of new technology. The timely allocation of resources in line with the programme is always crucial, as is retaining customers' trust and confidence as you deal with the inevitable difficulties that every programme faces.

How will your experiences in developing relationships at senior international level shape the way you work at Torotrak?

Relationships are key in any business. International dimensions add additional complexity and cultural differences. I have had extensive experience in working on collaborative high technology development programmes in both Europe and North America. I have been involved in mergers and acquisitions in Europe, America and the Far East. I ran a multinational company with operations spread around the globe. I have dealt with the leadership of very large companies and with governments around the world. It is a little early for me to say how this experience may be used at Torotrak, however I would certainly hope it will be of value.

As someone who enjoys heliskiing – what's your attitude to risk in your business life?

In the mountains one takes risks in order to be able to enjoy the exhilaration of the beautiful surroundings and the excitement and aesthetic rewards of skiing untracked powder. You do not take risks for the sake of it and you work hard to minimise the risks you are exposed to. You also train to deal with possible emergencies. My attitude to risk in business is the same, without risk you achieve little, but risk can be assessed, calculated and ameliorated. In short, it can be managed, and what remains must be balanced against the expected rewards.

What would be your approach to leading the Torotrak team?

The main facets of a chairman's role are to ensure that the skill sets at board level are properly cultivated and led, with a clear focus on making sure that the company's strategic priorities are always kept in sight. Having high calibre individuals does not always ensure a strongly performing team, and getting the best out of them, individually and collectively, is very much the chairman's responsibility. I view my role as both a coach and a mentor to the senior management, without being tempted to try to do the job myself.

I am also there to add to the management team's credibility in the eyes of the Company's investors, in the knowledge that I join at a pivotal point in time with a fresh perspective to offer. I look forward to meeting shareholders in the coming months and at the Company's AGM on 29 July 2011.

"I view my role as both a coach and a mentor to the senior management, without being tempted to try to do the job myself."

Driving Change – Our Focus, Our Values



“The changes we made recognised that the key to our success is effective collaboration with our major licensees and key partner suppliers. We wanted to optimise our performance in this area, creating the environment for more empowered project teams led by senior managers that had both technical and commercial accountability.”

Dick Elsy
Chief Executive

In many ways, our business is all about change. Changing the way we harness motive power. Changing the mindset of businesses and consumers. Making positive changes in the environment as our technology is introduced. And changing the driving experience as our gearless transmission manages an engine at its sweet spot.

At Torotrak, we know that delivering this change for our customers means being prepared to change ourselves. So, during this pivotal time, where legislation and consumer demand is putting us in an especially strong position, we've looked afresh at what we need to reinforce, and what we need to change, to fulfil our commercialisation goals.

We've reviewed our objectives, our way of working, the Torotrak 'brand', and our values as an organisation. This root and branch review has been exciting, challenging and illuminating. As a result, we are clearer than ever about our goals as a company, and about what we need to do to achieve them.

We've changed the way we express Torotrak visually and have focused on the simple messages that we need to communicate. This reflects the need for Torotrak to be more visible and better understood as we move towards commercialisation. This 'rebranding' has been driven from the inside out and has been a pragmatic and cost effective exercise, but one which is essential for our future development.

Reinforcing our values

Strong, sustainable and credible values are essential. As the market evolves and new opportunities arise, these values remain a constant at the heart of our business.

It is important as we progress towards commercialisation of our technology, that our brand reflects the qualities that differentiate and define Torotrak. Not least, because our size in terms of employee numbers and current financial parameters, says little about our ambition and the success that can be achieved with collaboration that extends through suppliers, customers, technology partners and service providers. Hence, our values extend outwards towards our external working relationships, as well as defining us as a Company, and are expressed as follows:

Dynamic

We apply all our engineering experience and expertise to optimise performance, improve fuel economy and reduce emissions. In our business, nothing stands still; we constantly challenge ourselves to do things better.

Tenacious

We're focused on our goals – and deliver tangible benefits for our partner companies. Throughout our projects, we ensure we're always on track, with clear deadlines and regular reports. Our customers always know where they stand which, in turn, builds trust and confidence.

Inventive

We're driven to find commercial solutions to real-world problems. By developing our technology and engaging with the right customers, we create and apply our knowledge to achieve tangible savings in fuel and emissions.

Collaborative

To us, collaboration takes many forms. We collaborate internally to realise the full potential of our ideas. And we work together with partner companies to bring our products to market. Our business model is built on these principles.

Our positioning

Encapsulated in all of this is the proposition that is the Torotrak brand, which articulates simply the dynamic, progressive nature of our business and the global changes we are seeking to achieve as technology innovators.

TOROTRAK
Driving Change

Driving Change – Our Focus, Our Values continued

Changing our Organisational Delivery Structures

Engineering

In the last quarter of the financial year, we undertook a review and subsequently a re-shaping of our organisational structure. We introduced a new engineering management structure with three new engineering product director roles and two new engineering specialist leaders. Dick Elsy, Chief Executive, now takes direct responsibility for engineering delivery and quality assurance.

Rob Oliver

Product Director Automotive and Off-Highway

Rob is the main technical and relationship interface with automotive and off-highway customers. His functional responsibilities within Torotrak are to help shape a new approach to engineering within Torotrak- one that focuses resources on delivering combined commercial and engineering objectives. He manages the Company's product development and test capability as well as site operations.

Andrew De Freitas

Product Director Superchargers and Auxillary Drives

Andrew's product responsibilities cover all of the Rotrak project activities which address variable drive supercharging as a solution to engine downsizing. Andrew is also functionally responsible for the leadership of Torotrak's engineering design work, meeting the technical and timing needs of the programmes that we are pursuing. This role supports current engineering standards and is responsible for the development of Torotrak engineering tools relating to design calculation, and analysis and computer aided design.

Steve Murray

Product Director Commercial Vehicles

Steve is the product director responsible for our commercial vehicle main-drive transmission projects including the ongoing Allison and ETBM programme content.

Steve is also responsible for systems engineering, driving the core technical process within Torotrak. He is the 'lead architect' for Torotrak technology applications, matching customer requirements and needs with commercial solutions. This includes developing layouts and concepts that meet those requirements such as shunt layouts, variator sizing, control mechanisms and control strategy. Outcomes of these concepts may lead to a product programme, at which point Steve's role encompasses the transfer of Torotrak's knowledge and intellectual property to our licensees and partners, and the maintenance and development of that process.



Rob Oliver
Product Director Automotive
and Off-Highway

"The new structure has markedly increased the empowerment of engineers and technicians and connected them very directly with Torotrak's strategic objectives. There's a real sense of confidence about the new Torotrak, helped largely by the ability to focus on the big priorities, which is liberating to any engineer as it's a green light to 'get on with it'."



Andrew De Freitas
Product Director
Superchargers and
Auxillary Drives

"This is a challenging and exciting role, applying our technology in a novel way in the new area of variable drive supercharging. Collaboration with our Danish joint venture partner, Rotrex, shows how powerful it is when engineers with different perspectives and experiences work together in the pursuit of new solutions to pressing real world problems."



Steve Murray
Product Director
Commercial Vehicles

"This is a particularly exciting time for me at Torotrak. We have successfully completed the Allison proof of concept project and are now focused on a production design. At the same time, we're integrating best practice engineering processes with a world-class enterprise management system to improve our quality, productivity and effectiveness."

Driving Change – Our Focus, Our Values continued

Also reporting to Dick:

John Fuller

Product Leader Flywheel Hybrids

John's product responsibilities are to manage Torotrak's flywheel hybrid programmes. John is also the technology leader for Torotrak's hydraulic control systems, which are central to the functional performance of the transmission systems embodying our technology. He is also responsible for the modelling tools that are so important in the calculations used with customers and partners to predict performance and benefits.



John Fuller
Product Leader
Flywheel Hybrids

"There's great collaboration with our partner companies, such as Ricardo and Flybrid Systems. We are not experts in flywheels, and they are not experts in variable drives, but by working together we are creating something that is revolutionary in its simplicity and effectiveness".

Adrian Lee

Product Leader Core Variator Components and Fluids

Adrian is responsible for Torotrak's primary relationships with material component and fluid supplier partners and is currently working with seven international fluid, disc and roller companies. He manages the programmes to test and validate supplier products using our dedicated traction drive test rigs. Adrian is also the technology leader for Torotrak's tribology and variator traction performance, encompassing the performance of the discs and rollers and fluids that we have access to.



Adrian Lee
Product Leader
Core Variator Components
and Fluids

"Key to our traction drive technology is the ability to transmit drive-train forces through the shear stresses developed in elastohydrodynamic lubrication films generated between the rollers and discs which make up our variator. Hence, further improving the science and engineering around variator materials, heat treatment and manufacturing processes along with 'smart' traction fluids is central to the continued success of our technology, and its future trajectories.

I'm working with and leading numerous collaborative programmes with internationally renowned bearing manufacturers and oil companies to develop the most commercially viable production supply routes for all our licensees. This is a very significant contributor to the success of our route to commercialisation and one that I'm passionate about and excited to be involved in."

Driving Change – Our Focus, Our Values continued

Torotrak Strategy: Widespread Market Adoption of our Technology

Our aim is to take Torotrak technology from the test-track to the road, field or workplace, putting proven innovations into mass production. Our objective is to secure ongoing, recurring earnings through each unit of production that incorporates our intellectual property.

Torotrak's strategy is built on the strength and quality of our intellectual property. We exploit this knowledge and protect it with appropriate patents. The practical understanding of our technology, our "know how", is a key enabler to successful collaboration and strong commercial IP agreements.

Our strategy depends on the collaboration and shared vision of our partners who will bring our technology to market. Consequently, we work with licensees, suppliers and technology partners who share in both the resourcing and final success of commercialising our technology.

Commercial focus

Our objectives are clear enough: to put our technology into production and realise the

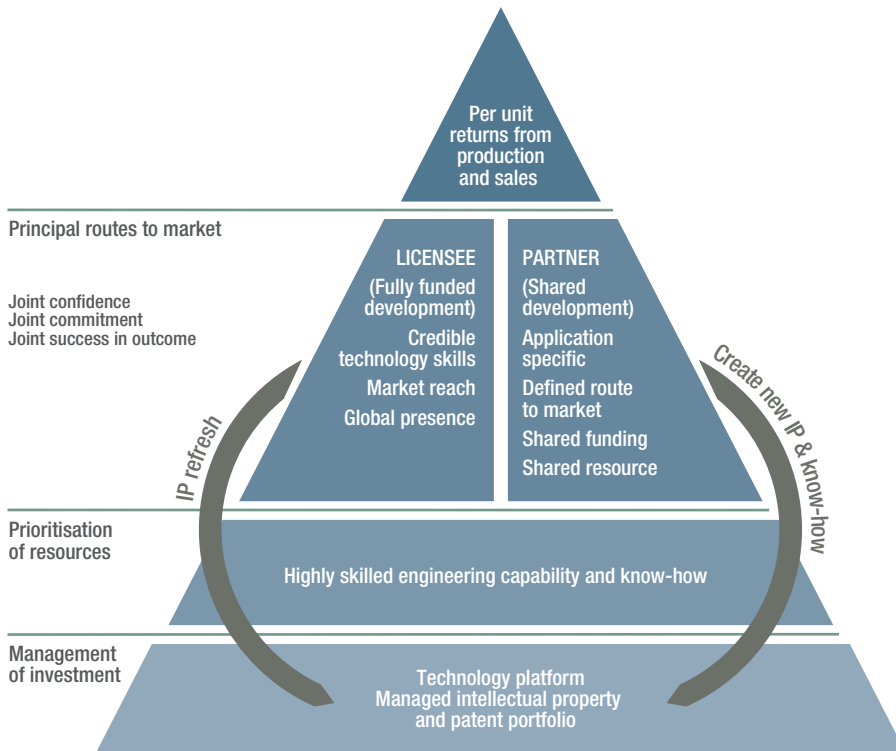
commercial opportunities as they arise. In pursuit of these, we have integrated business development responsibilities across the team. Nobody can articulate the benefits of our technology better than the engineers who would ultimately deliver the required solution. We are able to harness their credibility and expertise to engage potential customers and realise new business opportunities. The new product directors and leaders then secure customer commitment working closely with the Finance & Commercial Director in negotiating and structuring the most appropriate commercial arrangements. As with our technology, the commercial structuring requires a creative but pragmatic approach to achieve Torotrak's, and our partner companies', objectives.

We have been doing a lot more 'pre-qualifying', ensuring that the technology programmes on which we embark have real commitment from the third parties with which we work. That is why we refer to them as 'partner' companies. We only want to work on programmes where we have shared objectives, committed investment and clear commercial agreements up front which define how success will be apportioned.



"Our choices represent our opportunities – and of course they are also our main risks. Try to do too much, and little may be achieved. Working on the wrong opportunities, fee paying or not, just ties up valuable resources. Our future focus is therefore on testing opportunities hard upfront. There is little point working on great technology solutions to problems that don't yet need to be solved, or which don't have a credible commercial sponsor."

Jeremy Deering
Financial &
Commercial Director



Where Our Technology Delivers Commercial Value



	Market	Outdoor power equipment	Small urban / city car	Mainstream cars and light vans
Legislation is driving manufacturers to implement new technology solutions	N/A		EU legislation 130gkm CO ₂ by 2015 and 95g/km by 2020 USA targets fleet average 35.5 mpg by 2016	
Visible licensees and partners	MTD Products		Tata Motors	Tata Motors Jaguar Land Rover Volvo Cars Ricardo Flybrid Systems Rotrak joint venture
What our technology delivers		Gearless drive transmission		Variable drive pressure charging to enable downsizing of engines Mechanical flywheels that recover braking energy
Market need addressed by Torotrak technology		Affordable automation High quality driving feel New technology benefits, scalable for manufacturers across all markets		Improving fuel economy in a way that is affordable for manufacturers Economic pressure charging without performance loss A simple hybrid solution without expensive batteries
Further reading		Outdoor power equipment – Page 25	Small urban cars – Page 18	Mainstream cars – Page 20

Where Our Technology Delivers Commercial Value continued



Off highway vehicles

City buses and distribution trucks

Other coaches and haulage trucks

<p>EPA Tier 4 Final and EU Stage IV</p>	<p>Euro V1 Commercial vehicle emissions USA 20% CO₂ reduction by 2020 starting 2015 ACEA 20% fuel improvement by 2020 (vision)</p>	
<p>Tata Motors Carraro Iseki</p>	<p>Allison Transmission Inc European Truck and Bus Manufacturer Tata Motors Volvo Powertrain Optare Ricardo</p>	
<p>Gearless drive transmission</p>	<p>Gearless drive transmission Mechanical flywheels that recover braking energy</p>	
<p>Affordable automation Better productivity and improved fuel economy New technology benefits, scalable for manufacturers across all markets</p>	<p>Affordable and improved automation Improving fuel economy and reducing noxious emissions in a way that is affordable for manufacturers Torotrak technology particularly beneficial for stop start cycles, representing the dominant use for the automatic transmission market</p>	
<p>Off highway – Page 15</p>	<p>City buses – Page 16</p>	<p>Other coaches – Page 16</p>

Chief Executive's Review

“Our technology is ever more relevant as the pressure for change builds demand for cleaner technology solutions.”



Dick Elsy – Chief Executive

Progress against key objectives

We laid out last year the change of emphasis in our strategic focus and the new priorities that we had set ourselves. A progress report on how we have fared against those objectives is summarised on page 3, and reported in more detail below.

It has been a year of substantial change: change in the market climate and progress with our lead customers, as well as change in our structure as an organisation in preparation for taking serious steps towards commercialisation in volume (see pages 8 to 11). The market for clean technology has also changed and Torotrak's prospects for success have grown. Our technology is ever more relevant as the pressure for change builds demand for cleaner technology solutions.

Market background – pressure for change in the way that fuel is used for transportation

The world needs to save fuel and there are now fiscal and commercial pressures to enforce this. The combination of confirmed and emerging fuel economy and emission legislation, coupled with growing fuel costs, is driving demand for fuel efficiency technology across the whole automotive, commercial vehicle and off highway markets. The legal framework is in place and there is a clear commercial case to introduce new technology.

Moreover, there is a growing and strong sense of social responsibility. Consumers are putting pressure on companies across all transportation sectors to be cleaner, greener and more efficient. Reducing emissions in vehicles is becoming a moral imperative as much as an economic one, not only for the vehicle manufacturers but also for end-users.

Commercial vehicles

For commercial vehicles there exists draft regulation in the USA which targets the achievement of a 20% reduction in fuel consumption, to be progressively introduced within an expected 2016 – 2020 timeframe. In Europe, the European Automobile Manufacturers Association (“ACEA”), the body which represents the major vehicle manufacturers, has committed to its ‘Vision 20-20’ which seeks to reduce commercial vehicle fuel consumption by 20% by 2020.

The commercial vehicle market has to date concentrated on meeting noxious gas emissions targets, however there is growing realisation that this market also needs to focus on developing products with better fuel economy. The noxious gas targets have begun to tighten towards automotive levels and this has necessitated the use of exhaust treatment systems to clean up the exhaust gas. A dilemma for commercial vehicle manufacturers is that this exhaust treatment technology has a detrimental impact on vehicle fuel economy.

The commercial vehicle industry needs, and is prepared to pay for, technology which can address fuel economy and emissions at source. The most obvious way to achieve this is to allow the engine to run under optimum conditions to get a cleaner burn and to make best use of the fuel. Torotrak's gearless variable drive technology can enable this, with the right efficiency and ability to handle the high power of truck and bus engines.

When Torotrak technology is fitted to such vehicles, although the results are dependent upon the specific test cycle used (long haul truck versus city delivery for example), we know that fuel economy gains in excess of 10% are achievable and that the savings are greater in high traffic urban environments.

Commercial vehicles are a material market for Torotrak. After the recent global economic downturn, which has affected the sales of commercial vehicles, forecasts predict that there will be a strong increase in commercial vehicle production. In North America, on-highway commercial vehicle production is expected to grow annually by roughly 20%, from around 180,000 units in 2010 to around 310,000 units in 2013. Similarly, in Western Europe, annual growth is expected to be around 20% over the same period, culminating in a total annual production of around 600,000 vehicles by 2013.

Chief Executive's Review continued

Our licensee Allison has a market leading position in automated transmissions for delivery and distribution truck and buses. Allison estimates that in 2010 it had 60% of the global market share for fully automatic transmissions in the medium and heavy duty on-highway commercial vehicle market. Allison has also said that it expects a strong trend towards greater transmission automation.

In North America, automatic transmissions are dominant, representing 79% of the medium and heavy-duty commercial vehicle transmissions sold. In contrast to this, in the rest of the world use of automatic transmissions in the medium and heavy-duty commercial vehicle sector is very low and is believed to be around 5%. With the increasing legislative, economic and social demands for reduced fuel consumption and lower emissions, and where the solutions point heavily towards greater automation, we see a very good reason for this percentage to substantially increase. This represents a growing and tangible market for Torotrak's technology.

Off-highway market

The off-highway market, encompassing agricultural vehicles, construction equipment and material handling vehicles, is also facing the stringent noxious gas emissions legislation of US EPA Tier IV Final and EU Stage IV. There are, however, significant drivers in this sector to improve overall productivity by maximising vehicle efficiency and drivability which in turn increases operator productivity and serves to reduce overall fuel consumption.

Torotrak's access to this market is through the vehicle manufacturers and their key transmission suppliers, for example Iseki and Carraro, Torotrak licensees. Through our work with Carraro, Torotrak technology has been presented at major trade exhibitions including BAUMA 2010 at Munich, as class leading in efficiency, economy and refinement for variable drive transmissions.

Automotive

The automotive market for Torotrak comprises passenger cars and transportation other than commercial vehicles. As part of the global commitment to reduce greenhouse gas emissions, CO₂ (fuel consumption) targets have been

introduced for the developed economies. In Europe, Regulation EC 443/2009 requires car manufacturers to deliver a 'fleet average' CO₂ target of 130g/km, starting in 2015. A further tightening of this Regulation proposed to reduce fleet average emissions to 95g/km from 2020. This represents improvements of 11% and 35% over measured 2008/9 levels. In the USA, targets for cars are related directly to fuel economy, and President Obama set new national targets for fuel consumption in 2009 to achieve a fleet average of 35.5mpg from 2016, representing a 35% improvement on 2007 levels.

Vehicle manufacturers in the automotive market therefore face a direct legislative challenge: if they do not provide vehicles with better fuel economy, then they will suffer financial penalties levied against every vehicle sold. This has driven vehicle manufacturers to assign a value for new technology in relation to each gram of CO₂ reduction that it can achieve. There is therefore a readiness to pay for new technology that delivers the required CO₂ reduction in a cost efficient way.

Much of this new investment is going into improvements in:

1. Engine downsizing enabled by pressure charging devices
2. Stop/start technology
3. Hybrid technology

Torotrak's technology has direct application in each of these categories. This introduces an entirely new range of opportunities outside main drive transmissions, where Torotrak's variable drive technology facilitates new solutions for engine downsizing and enhanced stop start systems, and provides a mechanical hybrid alternative to the current electrical hybrid solution.

For main drive transmissions, our opportunities in the market lie mainly in areas where new investment can be justified. Torotrak's technology focus here lies with the market for small cars, where customers in emerging markets are seeking next generation solutions and where Torotrak's technology can provide additional benefits, such as improved manoeuvrability and cost effective automation.

"There is a readiness to pay for new technology that delivers the required CO₂ reduction in a cost efficient way."

Chief Executive's Review continued

“There are clear opportunities for our technology to deliver CO₂ reduction through mechanical hybrids.”

Priorities and programmes

Summary

Torotrak's focus as a provider of gearless variable transmissions has been primarily directed this year at the commercial vehicle market, where we have two substantial lead customers. The requirement for Torotrak's new technology is driven by strong commercial need and our capability to provide a smart solution at an economic price.

Elsewhere, we have focused our resources on the automotive market, where there are clear opportunities for our technology to deliver CO₂ reduction through mechanical hybrids incorporating stop start and engine boost solutions; in addition, we have worked on a high profile concept city car main drive transmission project.

Our lead licensee in the off-highway market, Carraro, continues to make good progress towards bringing a range of new transmissions encompassing Torotrak technology towards market launch.

During the year, we took the decision to exit our joint venture arrangements with lawn tractor manufacturer, MTD as we saw our respective strategic interests better served by a non-exclusive licensing arrangement from Torotrak to MTD. More detail of this restructuring is in the Financial Review.

Allison Transmissions Inc (“Allison”)

The strong collaboration between Allison's engineers and the team at Torotrak successfully delivered the first programme result of a transmission in vehicle. Our work included extensive rig and vehicle testing of the concept prototype transmission, as well as the conclusion of a substantial 'technology transfer' programme. This has enabled Allison's engineers to acquire the knowledge of Torotrak's technology necessary for them to be able to take product development ownership and direction from their base in Indianapolis.

We stated in November 2010 in our interim statement that we were confident that Allison had the determination and capability to move quickly onto a production intent prototype design in 2011. On 12 April 2011, we announced that Allison had made substantial further licensing and engineering services commitments. (For further details, see the Financial Review).

Most significantly, Allison has contracted Torotrak to provide engineering support in its next stage production intent transmission design programme, which commences in the first quarter of the new financial year. The initial first year order value for engineering support is \$2 million. Torotrak will assist Allison throughout its multi-stage programme, which aims ultimately to deliver a production ready transmission. The first two years of this programme have been carefully mapped out and detail the requirements for Torotrak's engineering input.

Working very closely with Allison through this multi-stage programme will enable Torotrak to help them make engineering decisions as they configure the design for production. This will enhance the prospect of a successful and timely outcome.

European Truck and Bus Manufacturer (“ETBM”)

Torotrak's £2.9 million engineering contract to carry out a full milestone-driven design, build, and test programme to deliver a total of five prototype transmissions for ETBM reached its final and most material stages during the year. We have completed the build and initial test and installation of all of these transmissions. One has been installed into a truck involving a full vehicle integration programme and delivery back to the customer. One is in the process of being installed into a bus. The remaining three transmissions have been used for rig testing purposes.

We have delivered the first vehicle, a large distribution truck, to ETBM having achieved the important milestone of 'Handover acceptance criteria achieved'. This means that the vehicle, equipped with Torotrak's prototype transmission, has delivered the in-vehicle performance targets that were set at the beginning of the programme. Achievement of this handover triggered a milestone payment of £0.3 million in March 2011. This project is now nearing its final stages, which include the handover of a bus similarly equipped and fully integrated with a Torotrak transmission and triggers a final milestone payment, representing the remaining 5% of the contract value.

Behind these vehicle installations is a series of rigorous rig tests both in the UK and at the customer's test facilities, where the prototype transmissions have been subjected to an array of specific test conditions designed to measure

Case Study 01 / Tata Pixel



Innovative thinking

Most city cars can only carry two people and Tata Motors wanted to show how a more progressive look at a car's layout could create something capable of carrying four adults in comfort but still easy to park and manoeuvre. So, when Tata Motors asked us to deliver a prototype transmission (IVT) to support their concept of future urban mobility, it engaged our engineers' imaginations immediately.

Revealed at the Geneva Motor Show in March 2011, the Tata Pixel concept car based on the Tata Nano really demonstrates the difference that Torotrak technology can make. An inventive low-cost configuration of our technology, connected to Tata's rear-mounted engine, produced an efficient urban vehicle with

unprecedented manoeuvrability.

The Tata Pixel's transmission shows the potential of Torotrak's technology in the urban car market. A productionised transmission would keep the engine running at the optimum speed for the torque required and reduce fuel consumption and emissions. During normal driving, it would give the Tata Pixel seamless ratio changes so the driver gets a refined, economical drive and all the acceleration needed in areas of high traffic density.

Most spectacularly, for city life's tight parking, U-turns and manoeuvring,

Torotrak's transmission can also rotate the rear wheels in opposite directions. Assisted by front wheels that can turn at 90°, the Tata Pixel is able to turn in its own length, getting the driver in and out of tight spaces more easily.

Our partnership with Tata Motors on the Tata Pixel concept car and other projects shows the growing relevance of IVT technology in delivering new technology solutions for the world's growing population. The Tata Pixel concept car is evidence of the commercial attractiveness and scalability of Torotrak's transmissions.

Rob Oliver

Product Director Automotive and Off-Highway

Chief Executive's Review continued

“The strong collaboration between Allison's engineers and the team at Torotrak successfully delivered the first programme result of a transmission in vehicle.”

performance and efficiency. Transmission efficiency is vital to achieving fuel economy in the final vehicle and measurements from the rig tests have shown that there is a very close correlation between the results and the predicted performance. The client uses these results as an accurate tool to assess the likely fuel economy and emissions performance of future vehicles, and to confirm the benefits derived from using Torotrak technology.

With the tests yielding promising results, ETBM has now embarked on a programme of technology transfer wherein Torotrak is imparting its knowledge and expertise to engineers at the ETBM's headquarters. This knowledge will equip the engineers to be able to develop the technology further on a self-sustained basis.

Torotrak is currently scoping out a programme of additional work with the ETBM to further develop and improve the performance of the first vehicle.

ETBM is currently formulating its plans for the next programme steps.

Tata Motors

Torotrak's relevance as a gearbox technology provider to the small car market was highlighted in the 'reveal' of Tata's Pixel concept car at the Geneva Motor Show in March 2011. Equipped with a Torotrak transmission, the Pixel is a bold and radical new design concept for an urban/city car and is being used by Tata to gauge market reaction.

The concept transmission in the Pixel allows independent speed control of each of the rear wheels which, in combination with Tata's novel steering mechanism, allows the Pixel to turn around almost within its own length.

We believe the use of Torotrak's technology in the Pixel, even at a concept stage shows the potential for Torotrak's technology in the development of compact, clean urban vehicles as a solution to issues of pollution and traffic density in major conurbations.

Joint venture with Rotrex AS – 'Rotrak'

Technology and opportunity

Pressures on the high volume automotive market to reduce CO₂ emissions have led the car industry to focus on technologies that can offer the greatest gains at the lowest unit cost. A key way to achieve

savings at low cost is engine downsizing: a small engine has lower friction and pumping losses than a larger one and is therefore more fuel-efficient. Consumers however do not want to compromise on vehicle performance, so pressure-charging technology is being deployed to 'boost' the power of small engines to match the levels of the larger engines they replace.

Conventional technologies for achieving this, such as turbocharging and supercharging, have their limitations and these are exacerbated as the size of the engine gets smaller. This is principally to do with deficiencies in performance and response at low speeds, where the pressure charging devices are least effective. There is considerable technical effort and investment going into resolving this shortfall across the industry. Most of this centres on increasing the technical complexity of turbochargers as well as technology pairing, whereby a small engine may have twin turbochargers or a turbocharger and a supercharger combined.

Nonetheless, increasing complexity also increases cost and here the commercial case for downsizing as a means of achieving CO₂ reduction weakens.

This however has not stopped continued investment into pressurechargers, which are expected to reach an industry volume of 26 million units per annum by 2015, at the point where the first tranche of the EC 443/2009 Regulation comes into force.

Progress

There is a significant opportunity in both the petrol and diesel markets for a single pressurecharging device with a cost advantage over the incumbent solutions. This is the addressable and material market opportunity for Rotrak, our joint venture with Rotrex AS (a Danish supercharging company) established in April 2010. To reinforce our working relationship, Torotrak acquired a 15% shareholding April 2010 in Rotrex AS, which is making considerable progress in its own right.

Rotrak has combined the two joint venture partners' technologies to create a variable drive supercharger capable of addressing the shortfalls of the incumbent technologies in this downsizing market. The benefits of our collaboration have yielded early results, with our first proof of concept prototype units being tested at Torotrak's facilities within eight months of the joint venture's formation. Initial work has been confined to test rigs, which

Case Study 02 / Jaguar Land Rover



Overview

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Low-carbon technology enabled

We're passionate about recovering wasted energy in a smarter way and our continuously variable transmissions (CVTs) for high-speed flywheel systems allow vehicle manufacturers to take a more progressive approach to hybridisation. Our solution has the benefit of utilising technology that incorporates two of the most abundant materials on earth, iron and carbon, which provides a considerable advantage over the current solution that uses large, expensive electrical batteries.

Torotrak is taking part in FHSPV (Flywheel Hybrid System for Premium Vehicles), a consortium programme led by Jaguar Land Rover, which has recently completed an important investigation into the benefits of installing the mechanical flywheel hybrid in a saloon car. On paper, these benefits were clear. Compared to

conventional hybrid systems, mechanical flywheel hybrids reduce inefficiencies in the recovery and re-use of braking energy. Instead of converting kinetic energy into electricity, energy is stored in a high-speed flywheel with power transfer controlled by a compact, continuously variable transmission (CVT) based on Torotrak technology.

For the testing process, a Jaguar XF was installed with the flywheel and its drive system in the space normally occupied by the spare wheel. We're thrilled to say that the vehicle has tested well, demonstrating crucial improvements in fuel economy and thus lower CO₂ emissions. The figures are impressive: in the ARTEMIS test cycle, which most closely represents typical real-world usage, the flywheel hybrid system with the addition of stop start delivered

an impressive 22.4% improvement in fuel economy compared with the base vehicle, while in the industry-standard NEDC (New European Driving Cycle), an 11.9 % improvement was recorded.

We're very excited about these results, which are extremely positive for a system in this early stage of development, prior to any design refinements. Consequently, the consortium confidently believes that the technology is worth taking to the next stage of development.

With Torotrak technology featuring in flywheel systems for commercial vehicles, premium vehicles and small cars, we are proud to be a key partner in the UK's work to develop low-carbon technologies.

Pasco De Palma
Project Controller

Chief Executive's Review continued

“The Rotrak variable drive supercharger on test has demonstrated the capability to deliver the crucial ‘time to torque’ response that is key in overcoming the limitations of other engine downsizing technologies.”

have shown that the Rotrak unit is capable of delivering the crucial ‘time to torque’ response that is key in overcoming the limitations of other engine downsizing technologies.

The next step is to install a proof of concept unit in our own vehicle to demonstrate the benefits to interested Tier 1 suppliers and vehicle manufacturers. We aim to show that we can deliver the driving feel of a car with a 1.8 litre engine from one fitted with a 1.2 litre Rotrak boosted unit. We expect to have initial results from this vehicle in the first half of the new financial year.

Our commercial strategy for Rotrak remains based upon two routes. Firstly, we are setting out to prove the technology’s capability for self-financed lower volume supply. Secondly, we are working with interested vehicle manufacturers and Tier 1 suppliers to develop the technology on a licensee basis for higher volume market supply.

Recovering wasted energy in a smarter and more environmentally sound way – a new type of pragmatic hybrid and ‘stop start’ system

Technology and opportunity

Recovery of the energy otherwise lost when a vehicle is braking is the central premise of the hybrid vehicle industry, which is currently focused on battery-electric technology as the only ‘developed’ solution. The challenges posed by this form of hybrid system are the cost, package space and the disposal and replacement of the high cost batteries during vehicle life cycles. The battery industry has not yet produced a convincing case that the batteries in hybrid application are able to meet the criterion of ‘fit for vehicle lifetime’ that is the industry standard. There are also growing concerns over the environmental impact of widespread battery manufacture and end of life disposal.

There is significant demand, therefore, for a cost effective, environmentally robust and fit for life system. Torotrak’s technology addresses this opportunity by linking its variable drive technology with a mechanical flywheel to enable a cost effective method of recovering wasted braking energy. We are working with flywheel technology partners such as Ricardo and Flybrid Systems, and industry partners such as Allison, Jaguar Land Rover, and Optare. Early results have generated considerable industry interest, in both the automotive and commercial vehicle markets.

The mechanical flywheel hybrid (Kinetic Energy Recovery System, or KERS) is a different proposition from the electrical systems and is suitable for both cars and commercial vehicles (particularly urban trucks and buses that stop and start repeatedly). The energy recovered from bringing the vehicle to rest is stored in a spinning flywheel as opposed to being stored in a battery as electrical potential energy.

In commercial vehicles, an electric hybrid bus can deliver considerable fuel economy savings but the high cost of the additional electrical systems and batteries almost doubles the transaction price of a new vehicle. This means that government subsidies are required in order to make them economically viable. In contrast, the Torotrak – enabled mechanical flywheel hybrid offers a realistic commercial proposition to bus operators, with no fundamental concerns about durability or battery disposal at the end of the vehicle’s life.

In cars, the cost of a hybrid system is also higher than that of a conventional powertrain. The higher cost of hybrid vehicles, together with concerns over battery life and disposal, mean that the market for such vehicles is still limited. Indeed, despite the technology being available for a number of years, the number of hybrid cars sold in Europe last year was less than 1% of total sales. The lower unit cost of a Torotrak enabled mechanical flywheel hybrid is a stronger commercial proposition able to address a far wider market.

In this context, the mechanical flywheel hybrid linked to stop start technology is an effective and affordable mechanical hybrid suited to more universal application.

Progress – automotive

Torotrak is a partner within the (FHSPV) Flywheel Hybrid System for Premium Vehicles consortium programme led by Jaguar Land Rover, which has recently completed an investigation into the benefits of a mechanical flywheel hybrid in a premium saloon. The Jaguar XF used as the test platform had the flywheel and its drive system installed adjacent to the rear axle, in the space normally occupied by the spare wheel. The development vehicle drives well and has demonstrated good fuel economy improvements that will translate directly to lower CO₂ emissions.

Case Study 03 / Torotrak Rebrand



Defining our voice: the Torotrak rebrand

We thought about what was really important to us, in terms of our priorities as a business as well as our principles as people.

We wanted to capture and communicate the true nature of Torotrak; the common values which motivate us. These values also guide our development and the way we work with customers and partner suppliers.

Above all, we wanted to define a clear and confidently expressed voice to express in simple terms what Torotrak is and what our technology can do. This process really came from the inside out. Our transformation in image became the visual manifestation of all the changes going on within Torotrak.

The values had to be authentic to all of us, and so we engaged people at every level of the company in the process. Through these discussions, we distilled four core values that were shared and meaningful to us all as a group of people, but also fundamental to our success in the way that we work with partner companies:

Dynamic, Tenacious, Inventive, Collaborative

Encapsulating all of this, the new Torotrak brand articulates the dynamic, progressive nature of our business and the global changes we are seeking to achieve as technology innovators. Our new, simple messaging and clean visual branding is

designed to be as accessible and engaging as possible. It equips us to reach a wide audience, sparking new interest and revitalising established relationships.

From all of this, we have a new statement and a renewed sense of purpose.

TOROTRAK
Driving Change

"This was a creative and meaningful process and being part of it means that every part of the company feels involved and accountable. Having joined Torotrak as a graduate, I felt I had a voice within the company and a real sense of influence. That's how I feel about Torotrak's future too."

David Yates, Design Engineer

Chief Executive's Review continued

“Torotrak enabled mechanical flywheel hybrid offers a realistic commercial proposition to bus operators.”

In the ARTEMIS test cycle, the standard developed by the industry to most closely represent typical real-world usage, the flywheel hybrid system with the addition of stop start delivered an impressive 22.4% improvement compared with the base vehicle. In the regulatory standard NEDC (New European Driving Cycle), an 11.9% benefit was achieved. This is a very positive outcome for an early development system, prior to any design refinements and without related optimisation of other vehicle systems. The consortium members are confident that the system warrants taking to the next stage.

To further improve the business case for widespread adoption of mechanical flywheel hybrid systems, a further consortium called Kinerstor has been established. Kinerstor's remit is to develop very low cost solutions for mechanical flywheel hybrid systems, which would justify fitting such systems into high volume 'commodity' production cars as a cost effective means of reducing CO₂. Torotrak's role is to develop a low cost variable drive, which dovetails well with our work on low cost drives for superchargers.

Progress – commercial vehicles

Torotrak's key programme during the year has been in conjunction with the Flybus consortium, which includes companies such as Ricardo, Optare, and Allison as development partners. The programme is currently running several months behind plan but has generated significant industry interest. With the support of the Technology Strategy Board, which has part funded this programme, there has been an agreed extension to the project to deliver the required outcomes.

The results of the modelling work for fuel economy and performance are attractive commercially, and fleet operators and vehicle manufacturers have expressed strong interest in the system either as original equipment or as a retrofit. Confirmation of this interest came in the form of an event sponsored by the Low Carbon Vehicle Partnership, following the presentation of its award to the Flybus consortium as winners of the HGV (Heavy Goods Vehicle) Technology Challenge.

Case Study 04 / New Joint Venture



New joint venture: product on test within 8 months

It is exciting to be accelerating the development of an alternative to complex turbocharging systems that will improve fuel efficiency in the next generation of engines.

Compressor technologies are critical to carmakers' work to reduce CO₂ emissions; forcing more air in allows you to get a greater performance out of smaller, more efficient engines. Our approach is to produce a simpler, more compact and more cost-effective way of doing this. We are integrating Torotrak's variable drive with a centrifugal

supercharger developed and proven by our partner Rotrex.

We've moved with real pace with prototypes on test within 8 months. It's great to see how a crankshaft spinning a supercharger at low speed is able to almost instantly increase its speed up to 175,000rpm to generate maximum boost. This is the crucial 'time to torque' that the Rotrak unit is seeking to deliver. We've got response time down to less than 450 milliseconds which bodes well for the vehicle work that we are about to start.

There are new sounds in the building; the rush of air at 7,000 litres per minute from the test rigs is great to hear. We're now installing a prototype into a vehicle. Our aim is to make a car with a small 1.2 litre engine have the driving feel of one fitted with a 1.8 litre engine. If we can achieve this and deliver the low cost unit that we're currently working on, we will have something highly marketable.

Andrew de Freitas
Product Director Supercharger
and Auxiliary Drives

Financial Review

“This has been a year of fundamental change and progress towards our goals.”



Jeremy Deering – Finance & Commercial Director

Summary

This has been a year of fundamental change and progress towards our goals. Demonstrable steps in support of this have been:

- Conclusion of further licensing agreements with Allison, securing £8 million of additional financial commitments over the next 12 months and the commitment to a multi-stage engineering programme to develop the next prototypes towards our joint goal of production
- A root and branch restructuring of Torotrak’s organisation, starting with a one third reduction in the board and its costs
- Further focus on costs means that Torotrak starts the new financial year with a leaner structure, fit for purpose and annualised savings of around £1.8 million
- Robust cash funds of £8.3 million at the year end, which increased by a further £3.5 million in April 2011
- The focus of engineering resources on our commercial vehicle customers has delivered both substantial projects according to plan: on budget, delivering what we promised, and on time. Engineering revenues of £1.8 million were earned from these two projects
- A restructuring of our interests in the former Infnittrak joint venture, such that Torotrak retains core licence rights in this market place, but which eliminates the cash costs otherwise required to support manufacturing investment and start-up losses
- A healthy forward order book for our engineering consultancy activities centred around our objectives to support our core licensees

Revenue

2011: £5.1 million (2010: £7.6 million)

Although engineering revenues increased by 36% to £2.2 million, overall revenue fell by 34% as a result of the lower level of licensing income in the year. As explained in previous years, the timing of licence payments materially impacts our annual results and hence year on year revenue comparisons at this stage (prior to production royalties) are not necessarily informative of progress made.

Engineering fees remain an important source of income, and the increased contribution reflects the high calibre and demand for our technical expertise. Our engineers are the cornerstone of Torotrak and are there principally to support the commercialisation and development of Torotrak technology, rather than generate consultancy income in its own right. Prioritisation of their time aligned to the right opportunities is clearly an important judgment call and is fundamental to the relationships that we seek to develop.

Cash

2011: £8.3 million (2010: £13.1 million)

Torotrak’s total cash outflow during the year was £4.7 million (2010: £1.9 million outflow) of which £3.2 million reflects the timing of lump sum licence payments. In addition, capital expenditure of £0.7 million on patents and improvements to our infrastructure increased the cash outflow this year.

Our closing cash balance of £8.3 million was increased immediately following the year end by £3.5 million of licence payments from Allison. This provides Torotrak with a sound level of financing to progress to the point where we expect to generate recurring income flow from the production of products containing our technology.

Organisational restructuring

As explained on pages 9 and 10, in the final quarter of the financial year we have undertaken a fundamental restructuring of our operations and staff structures. The principle has been to obtain far greater leverage from fewer directors and senior managers, and to develop more effective and more empowered teams working for them. ‘Teams’ in this sense can of course extend beyond Torotrak’s own employee base, into contractors and partner companies that we work with.

Our strategy is to work more closely with technology and supplier partners as well as our licensees,

Financial Review continued

with commercial arrangements that involve greater sharing of development costs. This, combined with seeking to introduce more efficient and empowered internal delivery structures, should enable us to make substantial reductions in ongoing Torotrak costs, whilst preserving, and in some cases enhancing, our ability to progress our technological and business growth.

The organisational restructuring started at board level, with a one-third reduction both in costs and in board members, which we reduced from six down to four. Intermediate director layers were also removed, with the engineering teams now reporting directly to the CEO through our new team of engineering product directors (see page 9). Reductions in staff numbers elsewhere focused mainly on support functions, although there have been reductions in engineers in areas that were considered appropriate to changing the balance of in house capability versus external support.

The staff reductions, taking the organisation to around 40 full time employees, took effect from 1 April although some departures will be phased over the coming months. The associated costs of £0.7 million have been charged as a 'one off' exceptional item in the year under review.

The net changes in staff and contractors, together with associated overhead reductions, will result in £1.8 million of annualised cash savings (before inflation) and an expected benefit of £1.4 million in the financial year ending 31 March 2012.

It should be noted that Torotrak's relatively low level of employee numbers is a misleading indicator as to the true level of investment in Torotrak technology. In this respect, when taking into account partner and licensee employees and programmes, which are spread internationally, we perceive the level of activity and investment to be continuing to increase and gather pace. An illustration of this is that we currently have seven component suppliers working with Torotrak to develop and validate their capability for production supply.

Licensing

In April 2011, we concluded further licensing arrangements with Allison valued at £8.0 million. This comprises a £3.5 million licence fee that was received immediately, £3.3 million licence fees due a year thereafter and £1.2 million by way of engineering order value over 12 months.

Part of each licence payment secures Allison's rights to a non-exclusive licence in 2013 in the above 14,000kg gross vehicle weight commercial vehicle market; such rights are currently held on an exclusive basis (other than pre-existing licensees) until 2013 by ETBM. Such amounts will only be recognised in revenue in 2013 when Allison has the rights to use the licence in this defined field.

The remaining part of each licence payment secures exclusivity for Allison for a period of two years up to March 2013, during which Torotrak agrees not to pursue further licensing with other parties in key areas within the commercial vehicle market ("Exclusivity Rights"). These amounts are recognised in Revenue when they are committed and we are confident they will be paid. Accordingly £1.8 million was recognised in the financial year to 31 March 2011, as this was contractually committed by Allison prior to the conclusion of our overall arrangements in April.

Following this two year period, Allison has the option to continue with its Exclusivity Rights on a perpetual basis for a further payment of £10.6 million, although at that stage it will have purchased full licence rights on a non-exclusive basis. If Allison does not require further exclusivity at that time, then Torotrak will have the ability to license other commercial vehicle customers from 2013 onwards. In line with the need to ensure resilience, we are of course planning for either eventuality in terms of our business development.

Allison's licence, as with all our manufacturing licenses, provides for per unit royalties payable to Torotrak upon start of production based on a percentage of the assessed manufactured value of each transmission produced.

Disposal of Infinitrak joint venture interest and restructuring of OPE licence rights

As reported in January 2011, we have exited the Infinitrak joint venture that was formed in November 2005 between Torotrak and MTD to develop, manufacture and sell transmissions for outdoor power equipment. Infinitrak's previously exclusive licence was replaced in January 2011 with a non-exclusive licence to MTD Products Inc. This new licence restricted MTD's use to the 0 – 25kw field solely for lawn and garden products, which MTD itself manufactures for its own demand. The licence is royalty bearing after the first 20,000 units of annual production. As part of the restructuring,

"Our strategy is to work more closely with technology and supplier partners as well as our licensees, with commercial arrangements that involve greater sharing of development cost."

Financial Review continued

“When taking into account partner and licensee employees and programmes, which are spread internationally, we perceive the level of activity and investment to be continuing to increase and gather pace.”

MTD took over Infnittrak’s tooling assets and have assumed all actual and contingent liabilities, including stocking costs at MTD Products and at suppliers. Torotrak received \$1.6 million in cash and took over the intangible patent assets relating to Infnittrak’s transmission developments.

The restructuring allows MTD to focus on its own branded products and Torotrak to have the freedom to develop commercial relationships with other OPE suppliers and develop the 25 – 45kw licensed field that can extend beyond OPE products.

We have accounted for Infnittrak as a discontinued operation in order to highlight the net impact of Infnittrak on Torotrak’s results. Going forward, Torotrak will not have the expense of funding manufacturing development and tooling, as well

as early year start-up losses, which may otherwise have been incurred.

Key performance indicators (KPIs)

We have re-assessed our KPIs during the year, in line with our strategic re-focus and restructure. Torotrak’s progress is materially evidenced by our progress with licensees and other partners that drive the commercialisation of our technology, and the indicators below focus on these areas.

Commercial KPIs

Engineering resources demonstrate progress in advancing key programmes towards production, as well as providing financial contribution.

Licensees’ and partner companies’ commitment to investing in Torotrak’s technology is a key litmus test. This can be expressed in terms of up front licence fees, or in terms of bearing the costs of development.

Torotrak’s routes to market are diversified.

Visible milestones demonstrate objective measures of progress.

Evidence / progress

All critical engineering milestones have been achieved.

Allison’s £8 million additional contract value is a material milestone and improves Torotrak’s financial strength and demonstrates strong commitment.

Less visibly, there has been an appreciable increase in international component supplier engagement, showing commitment to invest in order to play a part in the anticipated future supply chain.

In our key strategic areas of interest we seek diversity in routes to market:

- in commercial vehicles, we have two material commercial vehicle customers, in two different areas of the market (Tier 1 & OEM), undertaking development programmes in different ways
- we work with more than one flywheel supplier in our development of variable drive mechanical hybrids
- our joint venture Rotrak is developing its own technology solution and route to market in limited volume, as well as working with automotive Tier 1 suppliers and OEMs.

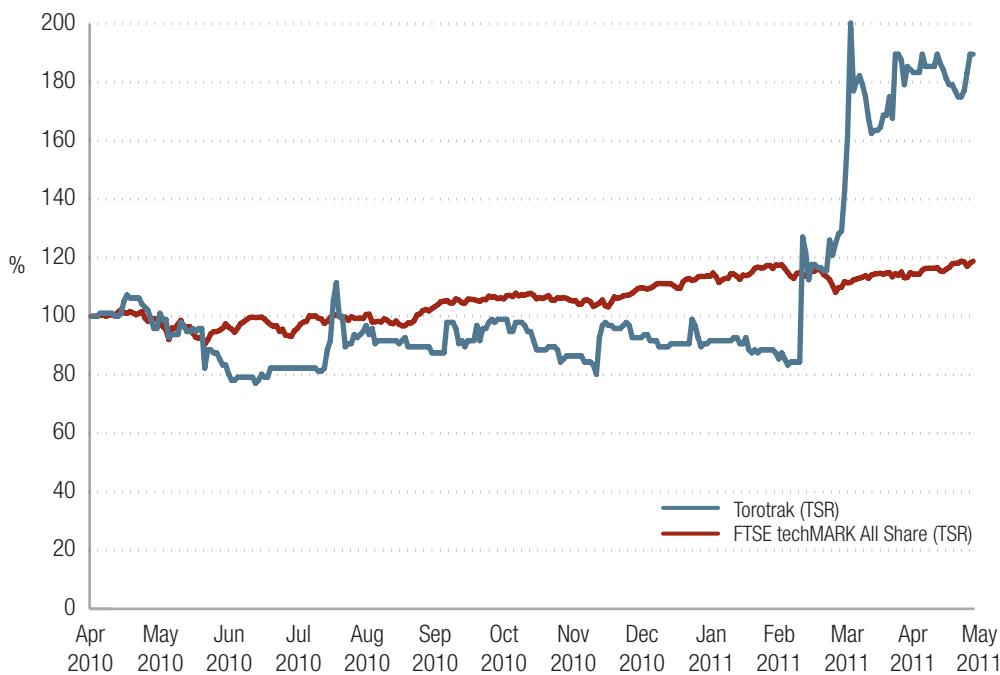
We are keen to be measured on our critical objectives. Our progress this year is set out on pages 14 to 23.

Financial Review continued

Financial/other quantitative KPIs	Evidence / progress
Maintain strong funding resilience	£8.3 million cash at year end, supplemented by £3.5 million further cash inflow in April £1.8 million reduction in annualised ongoing operating costs provides increased resilience
Value of addressable markets in key strategic areas of interest in CEO review indicating assessment of market opportunities	See business development sections in CEO review
Progression from opportunity to proof of concept to production intent hardware showing competitive offering on: price, package size and fuel economy	See business development sections
Progression towards positive recurring annual cash flow from operations	Cash outflow this year and losses, mainly due to timing and quantum of licence income. Lead time to start of production ('SOP') with our licensees and key partners is the most important measure. Progress as reported on pages 14 to 23
Growth in shareholder return	See chart below – progress made relative to relevant indices

“In our key strategic areas of interest we seek diversity in routes to market.”

Torotrak (TSR) vs. FTSE techMARK All-Share Index (1 Year)



Financial Review continued

“There has been an appreciable increase in international component supplier engagement, showing commitment to invest in order to play a part in the anticipated future supply chain.”

Financial risk management

Overall approach and complex instruments

The Group's overall risk management approach is to adopt a conservative approach and not to take major risk positions or use complex instruments. The treasury and finance function, which is principally responsible for managing financial risk, does not act as a profit centre and hence risk management is not influenced by profit targets. Key policies relating to risk management are approved by the Board of Directors.

Diversification of treasury deposits

Up to 50% of the gross total cash balances, at the time of depositing, may be invested with one institution, subject to a cap of £5 million per institution. However, up to 75% of the total cash, at the time of depositing, may be invested with the Company's current clearing bank, with no absolute cap, and up to 100% may be invested with the Company's current clearing bank on a short term basis (whilst investment decisions and

authorisations are being obtained). This approach aims to diversify risk, subject to restrictions on the credit rating of counterparties.

Counterparty and credit risk

In all cases where cash is deposited and at risk with a third party, other than in the normal course of trading with suppliers and customers, the counterparty must be AA rated on a long term basis (notwithstanding whether the transaction is short term in nature) and A1/ P1 on a short term basis as defined by Standard & Poors (S&P) and Moodys. This rating applies to the underlying credit risk of the legal entity with which Torotrak is doing business. In addition, the Board has approved Royal Bank of Scotland, as an exception, as an acceptable counterparty, despite its long-term rating being A+.

This policy gives a high degree of security for funds invested, although the cost of such security is a reduction in interest rates in comparison to those offered by less rated counterparties. Security of the Group's financial assets is the primary objective. Deposits at year end were held as follows:

Counterparty	S&P rating (Long term / short term)	31 March 2011 £m	31 March 2010 £m
Barclays Bank plc	AA- / A-1+	2.2	8.0
Svenska Handelsbanken AB (publ)	AA- / A-1+	2.0	2.0
Royal Bank of Scotland	A+ / A-1	4.0	3.0
Share of JV cash	—	0.1	0.1
Total		8.3	13.1

Foreign exchange risk

The Group's trading exposure to foreign exchange rate risk is relatively low and mainly arises from non-UK sterling denominated receipts in relation to licence and engineering service agreements. At the year end there were negligible trade balances subject to foreign exchange exposures.

Price risk

The Group is not materially exposed to commodity price risk.

Cash flow and fair value interest rate risk

The Group deposits and invests cash with a combination of both floating rates and at rates fixed for less than a year. In the year to 31 March 2011, the Group's bank interest receivable was £85,000 (2010: £140,000). Had interest rates increased / decreased by half of a percentage point, then interest receivable would have increased / decreased by £58,000.

Financial Review continued

Liquidity risk

The Company maintains sufficient cash for its short term needs, with the maintenance of regular cash forecasts to make this assessment.

Capital risk management

The Group manages its capital so as to preserve liquidity and safeguard medium to long term funding requirements.

“Allison’s £8 million additional contractual commitment improves our financial strength and demonstrates Allison’s commitment to Torotrak.”

Directors' Biographies



John Grant
Non-executive
Chairman and
Chairman of the
Nominations
Committee (retired
31 May 2011)

John Grant joined the Board in 1998 and was appointed Chairman in July 2005. He was Chief Executive of Ascot plc from 1997 to 2000 and Finance Director of Lucas Industries plc (subsequently Lucas Varity plc) from 1992 to 1996. He previously spent 25 years at Ford, where he was a Vice President of Ford of Europe, Director of Corporate Strategy in Ford US and Deputy Chairman of Jaguar. He is also Chairman of Gas Turbine Efficiency Limited and a non-executive Director of Melrose plc, MHP S.A. and Pace plc.



Dick Elsy
Chief Executive

Dick Elsy joined Torotrak as Chief Executive in January 2003. Prior to this, he was Product Development Director at Jaguar Cars Limited during its time as part of Ford's Premier Automotive Group. He previously spent 16 years at BMW AG/Rover Group, where he held various senior engineering and commercial positions. He is a Chartered Engineer and a Fellow of the Institution of Mechanical Engineers. He is also a Director and Trustee of Engineering UK, a not-for-profit organisation promoting the benefits that engineering and technology can bring to society.



Jeremy Deering
Finance and
Commercial Director

Jeremy Deering was appointed Finance Director in December 2006 and took over responsibility for commercial activities in January 2011. He has held senior finance and commercial positions in FTSE 100 groups including Tomkins plc and the United Utilities Group, where he was Group Financial Controller and then Finance Director of the energy group, Norweb plc, following its takeover. He was acting Managing Director of Your Communications prior to its intended IPO.

He subsequently worked with companies in the small to mid size sectors where growth opportunities or change management was involved including, in an interim director capacity, seeing System C Healthcare plc through its successful AIM flotation in 2005. He is also a director of Core Ventures Limited. He qualified as a Chartered Accountant with Arthur Andersen.



Nick Barter
Non-executive
Director, Senior
Independent Director
(as from 1 April 2011)
and Chairman of
the Remuneration
Committee

Nick Barter was appointed a director of Torotrak in November 2003. Prior to this, he was Director of Product Development for Jaguar and Land Rover, during the time it was part of Ford's Premier Automotive Group. He was responsible for all aspects of planning, design, development, sign-off and introduction of all Jaguar and Land Rover vehicles, leading a team of around 5,000 engineers, designers and analysts. He serves on the Technology Strategy Board's Steering Group for the Low Carbon Vehicle Innovation Platform and is a Trustee Director of RoadSafe and of The British Motor Industry Heritage Trust. He has recently become a director of technology company Ultramo Engines.

Directors' Biographies continued



James Batchelor
Commercial Director
(resigned 31 March 2011)

James Batchelor joined Torotrak in March 2003. Before this, he was Commercial Director of Trafficmaster Automotive, the telematics and traffic information group. He spent six years at BMW AG, including four years with the parent company in Munich and latterly as Project Director for Land Rover, having previously spent 13 years at Rover Group. He has an MBA from Cranfield School of Management, is a Chartered Engineer and a Fellow of the Institution of Mechanical Engineers.



David MacKay
Senior Independent
Director and Chairman
of the Audit Committee
(resigned 31 March 2011)

David MacKay was appointed a director of Torotrak in November 2003. He was formerly Executive Vice President and General Counsel for ARM Holdings plc, one of the UK's most successful technology companies, whose core business is founded upon the design and licensing of world-leading technology. He was responsible for intellectual property licences, international manufacturing and distribution agreements and joint venture agreements. He was formerly Chairman of NXT plc.

Senior Managers' Biographies

Steve Murray
Product Director
Commercial Vehicles

Steve joined Torotrak in 1997 and has been instrumental in many of the major developments in the full-toroidal traction drive technology within Torotrak.

He took up the position of Engineering Director in January 2006 and is responsible for systems engineering, project management systems, and managing all commercial vehicle activities. He is the Project Manager for licensee Allison Transmission, Inc and works closely with Allison's engineering team in Indianapolis, USA.



Rob Oliver
Product Director
Automotive and
Off-Highway

Rob came to Torotrak as Project Manager in 1999 and since 2008 was Chief Operating Officer of a joint venture with MTD Holdings Inc to develop outdoor power equipment transmission technology. He was previously employed by the AGCO Group for 14 years where he led UK test and development of tractor transmissions and drivelines including power-shift transmissions.



Andrew De Freitas
Product Director
Supercharger and
Auxiliary Drives

Andrew is responsible for Torotrak's design resources and for the Rotrak joint venture project activities in variable drive supercharging.

Andrew has worked for Torotrak since 1995, joining in the capacity of Design Engineer. He was promoted to Principal Engineer in 2000 and became responsible for design as Group Leader in 2004. Prior to joining Torotrak, Andrew worked as an analyst at the Dowty Group, having been awarded their sponsorship for an education in Mechanical and Production Engineering.



Directors' Report

The directors present their report on the results and affairs of the Group and on the audited Financial Statements for the year ended 31 March 2011.

Business activity, results, corporate governance and dividends

The ToroTrak Group activities are focused on the design and development of traction drive systems applicable to transmissions and ancillary devices. Current and future planned earnings derive from engineering services, intellectual property (IP) income and other activities relating to the commercial exploitation of ToroTrak's IP including joint venture and partnering arrangements to manufacture and sell systems incorporating the Group's technology. There has been no change in the principal activity of the Group since 31 March 2011. The Company's registered number is 3580465.

The business is reviewed in the Chairman's Review on pages 4 and 5, the Strategy and Business Overview on pages 1 to 3, the Chief Executive's Review on pages 14 to 22 and the Financial Review on pages 24 to 29. Information on likely future developments in the business is included in these reviews.

The directors' statements in relation to Corporate Governance are contained in the report on pages 36 to 39.

The directors do not recommend the payment of a dividend (2010: £nil).

Key performance indicators (KPIs)

The KPIs used by the directors to assess performance against the Group's strategic objectives, and progress against them, are described on pages 26 to 27.

Principal risks and uncertainties

In the directors' opinion, the key risks and uncertainties facing the Group are as follows:

Commercialisation

The Group's commercial progress depends upon its ability to establish and maintain successful relationships with appropriate licensees and other third parties to successfully exploit the Group's IP through development, manufacturing and distribution agreements. The timing and quantum of volume sales of products incorporating the Group's IP is dependent on the decisions by, and circumstances of, the Group's customers and those of its Joint Venture.

Creation or acquisition of technical solutions and intellectual property protection

Future performance of the Group will be impacted by its ability to develop and deliver new solutions, inventions and improvements in its technology that meet the needs of its customers. The continuing ability to establish, protect and enforce our proprietary rights relating to IP deriving from past and future developments is fundamental to the Group. This is principally achieved through the process of patent application and establishing patent protection.

Failure to protect the Group's IP rights may result in another party copying or otherwise obtaining and using its proprietary content and technology without authorisation. There also may not be adequate protection for IP rights in every country in which the Group's technology is made available.

Investigating and subsequently prosecuting or defending any infringement of the Group's IP or claimed infringement by the Group of a third party's IP may be difficult and involve substantial costs. The outcome of any litigation is subject to uncertainty and could have a material impact on the Group's financial position and future prospects.

Competition and technical advances

The markets within which the Group operates are characterised by evolving technology, market practices, regulation and industry standards which can have a positive or negative impact on the Group. Some of the companies that currently or in the future will compete against the Group may have greater technical, commercial and financial resources and may have better established market and customer reach. Competitors may also develop more effective technical solutions. The Group's future financial performance is therefore subject to its ability to successfully compete within this environment and achieve acceptable pricing for its IP and other sales activities.

Directors' Report continued

Financial

The Group's current financial resources, whilst believed to be sufficient to support the planned commercialisation of the Group's IP, are limited such that, if sufficient revenue cannot be generated within anticipated timescales from royalties, sales of products and services and dividends from joint ventures, or if significant new expenditure is required to exploit additional business opportunities, it may become necessary to raise additional capital. The ability to arrange such financing in the future would depend upon market conditions and the Group's prospects at that time.

Senior management and skilled personnel

The Group is dependent on members of its senior management and skilled personnel and believes its future success will depend in part on its ability to retain and attract them. The departure from the Group of any of its executive directors or certain senior employees could, in the short term, have an adverse impact on the Group's activities.

Economic drivers and environmental legislation

Demand for the Group's products may be influenced by legislation or general economic conditions that are outside of the Group's control and which could positively or negatively impact the Group's future sales.

These areas and uncertainties are reviewed according to risk procedures described on page 28.

Directors and their interests in shares

The names of the directors in office during the financial year and up to the date the Financial Statements were signed are shown, with their biographical details, on pages 30 and 31. Information on directors' remuneration, contracts and beneficial interests in the shares of the Company is included in the Directors' Remuneration Report on pages 40 to 47. There have been no changes in directors' interests in shares between the end of the financial year and the date the Financial Statements were signed.

John Grant retired as a director and as Chairman on 31 May 2011, in line with the Board's plans on board succession. John Weston has been appointed as a director and as Chairman with effect from 1 June 2011. James Batchelor retired as a director and as Commercial Director, and David MacKay retired as a director and Senior Independent Director, on 31 March 2011 following the decision to reduce board costs as part of the Company's organisational restructuring, discussed further on pages 24 and 25.

In accordance with the Company's Articles of Association concerning the rotation of directors Dick Elsy retires from the Board and, being eligible, offers himself for re-election at the Annual General Meeting. John Weston, having been appointed as a director and as Chairman with effect from 1 June 2011, and according to the Company's Articles of Association, offers himself for election at the Annual General Meeting.

The Company maintains insurance cover for directors' liabilities that may be incurred as a consequence of them undertaking their duties as directors or officers of the Company or any of its subsidiaries or joint ventures.

Company reports

The half-year and annual reports are available on the Torotrak website (www.torotrak.com) or, for those without internet access or who have specific requirements for the printed version, on request to the Company Secretary at the Company's registered address.

Payment to creditors

The Group has agreed a variety of payment terms with its suppliers. Payments to a supplier are made in accordance with the general conditions of purchase agreed, provided the supplier complies materially with all relevant terms and conditions and presents invoices on a timely basis.

At 31 March 2011 the number of days purchases outstanding to trade creditors was 4 for the Group and 11 for the Company (2010: 12 and 2 respectively).

Employees and health and safety

Our business depends upon the creativity, drive and goodwill of our employees. We seek to consult with all levels of employee, valuing their ideas and suggestions. Regular team briefing sessions and consultations combined with a staff forum and a performance assessment system encourage open channels of communication and feedback.

Directors' Report continued

Employee share ownership is encouraged and the Group has established schemes to incentivise, reward and motivate all employees, details of which are given in the Directors' Remuneration Report on pages 40 to 47.

The Group has a strong demand for highly qualified staff and we strive for equal opportunity and a non-discriminatory work environment for our employees. Disability is not an inhibitor to employment or career development within the Group. We provide clean, healthy and safe working conditions and pride ourselves on providing an attractive working environment. We encourage proactive participation by all our employees in identifying and controlling hazards. The health and safety performance is monitored by the Board and we are pleased to report that we had no accidents to report under the Reporting of Injuries, Diseases and Dangerous Occurrences Regulations 1995 (RIDDOR).

Political and charitable donations

Charitable donations by the Group during the year amounted to £nil (2010: £nil). No political donations were made (2010: £nil).

Research and development

£5,058k research and development costs were incurred during the year (2010: £5,228k) in relation to the continuing creation of new IP as well as support for the commercialisation of the Group's technology.

Significant contracts

The Group has a number of significant contracts as discussed in the Chief Executive's Review and the Financial Review. The most material contracts impacting the year under review related to Allison Transmission, Inc and our contract with the (undisclosed) European Truck and Bus Manufacturer, which together contribute the majority of this and the previous years' revenues.

Environment

ToroTrak's activities are focused on the development of products that offer improvements in fuel economy and emissions.

Our premises are composed mainly of offices and test facilities. Our operations are therefore 'low impact' in environmental terms.

The Group does not provide company cars. The provision of facilities for cyclists encourages greener commuting. Telephone and video conferencing are used extensively, providing alternatives to international travel. Wherever possible, the Group continues to adopt initiatives to lessen our environmental impact.

Auditors

The auditors, PricewaterhouseCoopers LLP, have indicated their willingness to continue in office and a resolution to re-appoint them will be proposed at the Annual General Meeting to be held on Friday 29 July 2011.

Disclosure of information to auditors

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

Authority to purchase shares

At the Annual General Meeting held on 29 July 2010, the shareholders passed a resolution authorising the purchase by the Company of its own shares to a maximum of 16,173,491 ordinary shares of 10 pence each. That authority has not been used and remains in force until the conclusion of the Annual General Meeting to be held on 29 July 2011.

Allotment of new ordinary shares

803,934 new ordinary shares were allotted during the year in relation to exercises of options by a participant in the Company's Long Term Performance Share Plan (16,440 shares) and the creation of the new SIP scheme comprising free, partnership and matching shares (787,494 shares).

Directors' Report continued

Substantial shareholdings

At 25 May 2011 the Company had been notified, or was otherwise aware, of the following major interests of 3% or more in its ordinary shares to which voting rights are attached:

	Shares	Percentage holding
Allison Transmission, Inc	14,608,290	8.98%
Barclays Stockbrokers Limited	14,508,440	8.92%
Majedie Asset Management Limited	8,989,200	5.53%
Gartmore Investment Management	5,324,644	3.27%

As at the date referred to above, the Company was not aware of any person or entity that, directly or indirectly, jointly or severally, would or could exercise control of the Company.

Share capital and take-over directive requirements

The share capital of the Company represents ordinary shares only, carrying equal rights to dividend and carrying one vote per share. Ordinary shares are classified in equity. No shares carry restrictions or special rights and no dividends have been waived by any shareholders.

Going concern

After making enquiries, the directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future, given the substantial cash resources available to the Group. Accordingly, the directors believe that it is appropriate for the Financial Statements to continue to be prepared on the going concern basis.

Corporate governance

The Company's statement on corporate governance can be found in the Corporate Governance Report on pages 36 to 39 of these Financial Statements. The Corporate Governance Report forms part of the Directors' Report and is incorporated into it by cross reference.

Annual General Meeting

The Annual General Meeting of the Company will be held at 10.00 am on 29 July 2011 at the Best Western Premier Leyland Hotel, Leyland, Lancashire. The Notice of the Annual General Meeting is contained in this Annual Report on pages 82 to 91.

By order of the Board:

Jeremy Deering	1 Aston Way
Company Secretary	Leyland, Lancashire
25 May 2011	PR26 7UX

Corporate Governance

The Board is committed to high standards of corporate governance. The Board considers that it has complied throughout the year under review with the main principles set out in section 1 of the revised Combined Code on corporate governance as amended and published by the Financial Reporting Council in June 2008 (the "Combined Code 2008"), with the exception of the following:

Exception	Explanation
Chairman sits on audit committee	<p>John Grant sat on the audit committee until 31 May 2011, when he retired from the Company. His financial qualifications and experience improved the structure and input of the meetings</p> <p>Following John Weston's appointment on 1 June 2011 as Chairman, his role also encompasses chairmanship of the audit committee. With the reduced size of the Board, this is considered to be a pragmatic solution commensurate with ToroTrak's stage of development and the scale of its financial risks</p>
<p>Board reduction from six to four on 1 April 2011</p> <p>The Board now comprises a non-executive chairman, a senior independent director and two executive directors</p> <p>This will result in both non-executive directors, including the Chairman, comprising all board committees. It also reduces the depth and breadth of both non-executive and executive representation on the Board</p>	<p>ToroTrak has appointed high-calibre non-executive directors who can adequately challenge and provide guidance to the executive directors</p> <p>Reductions in cost at Board level are required to provide leadership in terms of more general organisational cost reduction and to demonstrate greater effectiveness</p> <p>Board meetings are attended by appropriate members of senior management for the technical and business review, thereby enhancing communication and transparency and permitting the non-executives to benefit from a variety of inputs and views</p>
On appointment as Chairman on 1 June 2011, John Weston was granted options over shares to a maximum value of £140,000 at the date of grant. The option terms have no formal restrictions regarding retention of shares following exercise	<p>In keeping with the high standards of performance and governance that it aims to achieve, the Company, in its search for a new chairman, sought to attract a high-calibre individual with an entrepreneurial background and broad, high quality experience. To attract the right candidate, the Nominations Committee concluded that an initial equity incentive would be appropriate provided that appropriate performance targets were set for vesting and that the grant was matched by a personal investment in the form of the purchase of the same number of shares over which options are granted. This helps to align the Chairman's interests with those of other shareholders.</p> <p>These share options are a one-off grant and have no relationship to the Long Term Performance Share Plan, which provides for annual grants of shares to executives only. The options will lapse if not approved at the 2011 AGM</p>

During the year under review, the Group was subject to the June 2008 edition of the Combined Code on Corporate Governance ("the Code"), issued by the Financial Reporting Council (FRC). With effect from the year commencing 1 April 2011, the Group is subject to the June 2010 edition of The UK Corporate Governance Code, which applies to accounting periods commencing on or after 29 June 2010. Copies of both editions are publicly available on the website of the FRC at www.frc.org.uk.

Corporate Governance continued

The Board and its composition

Brief biographies of the present Board members are given on pages 30 and 31. During the year the Board comprised a non-executive chairman, a senior independent director, one non-executive director and three executive directors. Following the restructuring referred to on page 5, as from 1 April 2011 the Board comprises a non-executive chairman, a senior independent director and two executive directors.

The non-executive chairmen, outgoing and incoming, and the non-executive directors are considered by the Board to be independent in character and judgement and to be free from any business or other relationship or circumstance that could impact on such independence. The share options granted to John Weston are not considered to compromise his independence as they are a one-off grant and he will not participate in any of the ongoing employee incentive schemes. The Company's Articles of Association require that all directors are subject to election by the shareholders at the first Annual General Meeting after appointment and thereafter at least once every three years.

The Board structure creates a balance such that no individual or small group of individuals can dominate decision-making. The roles of Chairman and Chief Executive are clearly separated and have defined responsibilities. The Chairman sets the agenda for Board meetings and directs the running of the Board. The Board is supplied in advance of its meetings with appropriate financial, operational and other information to enable the meetings to be effective. The Chief Executive's responsibilities focus on managing the Group and implementing Board strategy and policy. During the year, the non-executive directors have particular responsibility for the scrutiny of management performance, the review of financial information and the constructive challenge and development of strategy; in addition, the non-executive directors had particular responsibility for the Board committees described below.

The Chairman is responsible for the process to ensure that directors keep their skills and knowledge up to date and to encourage their professional development. The Company ensures that adequate time and financial resources are available for directors to attend appropriate training and that newly appointed directors receive a tailored induction programme appropriate to their needs. The directors have direct access to the Company Secretary or, if required, independent professional advice at the Company's expense to be informed on all governance and other matters of importance to their Board responsibilities.

The Board has reserved specific responsibilities to itself including: setting strategy and approving annual budgets; reviewing financial and operational performance; approving policies for controls and risk management; approving major capital expenditure, disposals and major business development; reviewing the health & safety policy and performance of the Group; approving patent abandonment; approving appointments to the Board and the position of Company Secretary; approving policies relating to directors' remuneration and the severance of directors' contracts; and the processes to ensure that an appropriate and constructive dialogue takes place with shareholders.

Decisions are delegated to individual executive directors and senior management by reference to areas of specific responsibility and financial limits which relate to annually approved budgets, financial forecasts and the approved business plan.

Appointment of Directors and Articles of Association

The Articles of Association permit the directors to appoint any person to be a director, either to fill a vacancy or as an additional director, but so that the total number of directors shall not be less than three. Any director appointed in this way is required to be reappointed at the next Annual General Meeting,

The Articles of Association provide a number of circumstances whereby a director may be removed from office, including being dismissed from executive office or by way of resignation.

The Articles of Association or amendments thereto are approved by special resolution at Annual General Meeting unless otherwise amended through the operation of law.

Board committees

The Board has delegated specific responsibilities to three committees. Each committee operates within defined terms of reference set by the Board which are available on request from the Company Secretary. Membership of the committees is shown on page 38.

Audit Committee and auditors' independence

The Audit Committee was chaired during the year by David MacKay. Following his resignation on 31 March 2011, the Chairman took over as Chairman of the Audit Committee. This is a departure from the guidance incorporated into the Combined Code, for the reasons explained above.

Corporate Governance continued

The Audit Committee meets at least twice a year prior to the publication of the half-year and full-year results and at other times as the Chairman of the Committee shall require. The Committee considers all matters relating to financial controls and reporting, internal and external audits, risk management policy and procedures, the scope and results of the audits, the independence and objectivity of the auditors and the consideration paid to them. The Committee also is responsible for the selection of auditors, subject to their re-appointment at annual general meetings. The Board has ultimate responsibility for approval.

The Group does not normally award consulting work to the firm of auditors other than in the area of tax consulting and compliance, where they are best suited to carry out such work. However, the Group considers awarding other advisory services to the firm of auditors in circumstances where there is demonstrable independence from their role of auditors and where best value for the Group can be obtained. The Committee has discussed with the external auditors their independence and is satisfied that there are no circumstances where the auditors' objectivity and independence is compromised.

The Chief Executive and Finance & Commercial Director attend the Audit Committee meetings as required, as do the external auditors who meet with the Audit Committee at least twice every year. The external auditors also have the opportunity to meet with the Audit Committee at least once every year without the executive directors being present.

The Audit Committee is responsible for overseeing the evaluation of auditors' performance and the frequency and process for seeking rotation of the audit partner and for alternative audit tenders. The audit partner is required to rotate at least every five years. No fixed time period for audit tenders is established by the Audit Committee, although performance and suitability is kept under review on an annual basis. The Audit Committee considers that the relationship with the external auditors is effective and remains satisfied with their performance.

Remuneration Committee

The Remuneration Committee is chaired by Nick Barter. This Committee determines the policy for remuneration for the executive directors and directors of subsidiaries and makes recommendations to the Board having taken independent advice where required and obtained relevant data in order to undertake comparator analysis. The remuneration of non-executive directors is reviewed by the executive directors of the Board with guidance from the Chairman, except in relation to his own remuneration. The Directors' Remuneration Report, on pages 40 to 47, gives further details on the remuneration of directors.

Nominations Committee

The Nominations Committee is chaired by the Chairman of Torotrak plc and reviews proposals for the appointment of executive and non-executive directors or the extension of existing appointments and makes recommendations for approval by the Board.

Board effectiveness

The Board's evaluation of the individual performance of its directors, as well as the effectiveness of the Board as a whole, follows a process of confidential questionnaires to be completed by each of the directors. These are supplemented by individual meetings with the Chairman where results and development actions may be discussed. The results are fed back individually and to the Board or Nominations Committee as appropriate. In addition, the performance of executive directors is appraised according to agreed objectives and performance in relation to annual budgets and the business plan. The Chief Executive's performance is appraised by the Chairman and other executives are appraised by the Chief Executive.

The Board met eleven times during the year with attendance at the main Board meetings and sub committees as follows:

	Board	Audit Committee	Remuneration Committee	Nominations Committee
John Grant	11/11	2/2	9/10	1/1
Dick Elsy	11/11	–	–	–
Jeremy Deering	11/11	–	–	–
James Batchelor	10/11	–	–	–
Nick Barter	11/11	2/2	10/10	1/1
David MacKay	11/11	2/2	10/10	1/1

Corporate Governance continued

Risk management and internal control

The Board is ultimately responsible for the Group's system of internal control and meets annually to formally review the effectiveness of such controls. The control systems are designed to manage, rather than eliminate, various risks of failure to achieve the Company and Group's objectives and therefore are only able to provide reasonable and not absolute assurance against material mis-statement or loss.

There is a comprehensive system of financial reporting with monthly performance reports presented to the Board. The annual budget and the business plan, upon which the budget is based, is reviewed and approved by the Board.

There is a continuous process for identifying, evaluating and managing the significant risks the Group faces, which has been in place for the year under review and up to the date of approval of the Financial Statements. Risk management and opportunity cost mitigation is a central part of regular board review and assessment.

Major commercial, technological and financial risks are formally assessed during the annual business planning process, which normally takes place in the last quarter of the financial year. The Board monitors exposure to key business risks and progress towards achieving strategic aims.

The Executive Committee, which consists of the executive directors and senior management, meets regularly to monitor and control operations. Business performance is reviewed, risks and opportunities identified, financial and other implications assessed and corrective actions agreed as necessary.

Given the Group's scale of operations and centralisation of activities, the Board does not consider it necessary to have a dedicated internal audit function. Instead, it has chosen to rely on the auditors' review of controls which is part of the annual audit process and to contract out such additional activities as may be appropriate from time to time.

Relations with shareholders

The Chief Executive and Finance and Commercial Director are the principal points of contact for shareholders. The Chairman or the Senior Independent Director is available to shareholders where normal channels of communication may not be appropriate.

The Company gives high priority to communications with shareholders by means of an active investor relations programme, which includes a rolling programme of meetings with institutions, private investor intermediaries and the Torotrak Private Shareholders' Association. A section of the Company's website is dedicated to investors.

The Board is made aware of the views of major and other shareholders through reports and feedback made available at Board meetings following meetings with investors. The Board also reviews and seeks to understand the reasons for any substantial movements in the shareholder register, through appropriate analysis supplied at Board meetings.

All shareholders are welcomed at the Company's Annual General Meeting, which the Board considers to be an important forum for investor communication. Notice of the Annual General Meeting is contained within this Annual Report on pages 82 to 91. In particular, the meeting provides an opportunity for investors to meet with the Board and chairmen of the committees.

Joint Venture

The statements above refer to Torotrak plc and the subsidiaries under its control.

The Group's interest in a joint venture company is managed via a separate Board that consists of an equal number of Torotrak appointed directors to the directors appointed by Torotrak's joint venture partner. The Group seeks to implement, through this separate Board, appropriate risk management and controls, including the approval and setting of budgets and business plans, authority limits and regular financial reporting. Key decisions that would, if the joint venture company was a 100% subsidiary, require Torotrak plc Board approval, are referred to the Torotrak Board for approval prior to commitments being agreed at joint venture board meetings. During the year the Company had a joint venture interest in Infnitrak (until its restructure on 6 January 2011) and in Rotrak Ltd (following its formation on 19 April 2010).

Directors' Remuneration Report

This report complies with the Directors' Remuneration Report Regulations 2002, the Listing Rules of the Financial Services Authority and the 2008 Combined Code. A resolution inviting shareholders to approve the Report will be tabled at the Annual General Meeting on 29 July 2011.

The Remuneration Committee is responsible for determining, within agreed terms of reference, the policy for the remuneration of the Chairman, the executive directors of Torotrak plc and the other directors of Torotrak (Development) Limited, being the Group's primary trading company. The Committee is also responsible for determining the individual remuneration packages for executive directors including basic salary and annual bonuses, the level and terms of grants of options and awards and the terms of any performance conditions to apply to the exercise of such options and awards, pension rights and other benefits. Where the Remuneration Committee considers it appropriate, the Committee will also make recommendations in relation to the remuneration of senior management.

The Remuneration Committee consists exclusively of independent non-executive directors. The Chairman of the Committee is Nick Barter and its other members were John Grant (replaced by John Weston on 1 June 2011 upon John Grant's retirement) and David MacKay (until his resignation on 31 March 2011). Given their diverse experience, the independent non-executive directors are able to offer a balanced view with respect to remuneration issues of the Group. The Committee has access to professional, independent advice from external advisers who do not have any other connection with the Company or Group. The Committee has taken advice during the year from Squire, Sanders & Dempsey (UK) LLP (in relation to operation of the Long Term Performance Share Plan). The Committee consults with the Chief Executive on the remuneration of the other executive directors and directors of subsidiaries. The Chief Executive and the Finance and Commercial Director normally attend part of the Remuneration Committee meetings. No director is involved in deciding his or her own remuneration.

Remuneration policy

The objective of the remuneration policy, which has been applied in the year ended 31 March 2011 and is intended to remain applicable in the year ending 31 March 2012 and beyond, is to provide remuneration in a form and amount that will attract, retain, motivate and reward high calibre directors and senior management. The Committee believes that base salary and benefits for executive directors should represent a fair return for employment, but that over time a substantial proportion of the total reward should be derived from performance-related elements of the remuneration package. The performance-related elements of the executive directors' packages seek to align their interests closely with those of shareholders and provide incentives for performance. They are also designed to be long term in their nature.

Performance chart

The FTSE techMARK All-Share Index is the index used by the Committee for measurement of relative performance in relation to total shareholder return (TSR). The chart below compares the total cumulative shareholder return of Torotrak plc with the performance of the FTSE techMARK All-Share Index over the last five years. The Committee is of the view that this index constitutes a relevant broad equity market index.

Torotrak v FTSE techMARK All-Share – period 18 May 2006-18 May 2011



Directors' Remuneration Report continued

("Sharesave Scheme")

The executive directors' employment contracts are continuing contracts subject to termination on twelve months' written notice by the Company. There are no provisions for compensation on early termination in any of the executive directors' employment contracts. Dick Elsy and Jeremy Deering have service agreements with respective start dates of 1 January 2003 and 22 December 2006 and James Batchelor, who resigned as a director of the Company on 31 March 2011, had a start date of 31 March 2003.

Executive directors' remuneration packages

Details of executive directors' remuneration are included in the tables on pages 45 and 46. Remuneration packages for executive directors consist of the following elements:

Fixed elements

Base salary and benefits: The Committee reviews base salaries annually taking account of relevant external market comparisons, the level of responsibility for each executive and movements in basic pay across the Group.

Other benefits are health insurance and car benefits (which are subject to income tax), permanent health insurance and life insurance.

Executive directors are eligible to participate in the Torotrak Pension Scheme, a defined contribution money purchase scheme that is open to all employees of the Group. Executive directors have the option of having their contributions paid into a personal pension scheme of their choice. Pension contributions are made on basic salary only.

Variable elements

A performance-related bonus is recommended by the Committee on the basis of annual financial and operational targets established at the beginning of each financial year. Bonuses may be paid in cash, shares or a combination of both, and are not pensionable.

In 2011 the performance-related element of executive directors' remuneration was 24.1% (2010: 18.8%). Following the organisational restructuring in the last quarter of the year, the executive directors volunteered a reduction in base salaries with effect from 1 April 2011. This, together with the lack of increase for inflation in executive base pay for some years, is intended to decrease the level of non performance related pay and increase the proportion of executive pay that relates to variable, performance related measures.

Share option and share incentive schemes

Long term performance share plans

The Torotrak plc 2006 Long Term Performance Share Plan (LTPSP) was approved at the Annual General Meeting on 20 July 2006. The purpose of the LTPSP is to link a proportion of participants' remuneration to the Company's long-term performance and to strengthen the Company's ability to attract and retain key senior executives. The provision of competitive incentives linked to the success of the Company is designed to align the interests of those participants with the interests of the Company's shareholders.

Awards under the LTPSP are intended to be made to executive directors and key employees of Torotrak plc and its subsidiaries. The maximum value of shares determined at the grant date for any individual shall in any financial year be 100% of basic salary in the case of a director of the Company or 60% of basic salary for other employees, such limits being increased to take into account secondary Class 1 National Insurance contributions which are to be borne by participants. Awards under the LTPSP and any other employee share scheme granted at that time or during the previous ten-year period shall not exceed 10% of the issued share capital of the Company at that time. Shares held in the Torotrak Employee Benefits Trust and granted under the SIP scheme (described below) do not count towards this limit.

Awards give participants a right to receive a specified number of shares at the end of a period of at least three years, subject to the satisfaction of performance conditions. These performance conditions are set by the Remuneration Committee in accordance with the rules of the LTPSP which require that an award is subject to an objective condition or conditions as to the performance of the Group over a period of time.

If a participant ceases to be employed in the Group by reason of death, injury, disability or retirement upon reaching the age when the participant becomes bound to retire under his or her employment contract, an award will not lapse by reason of that cessation, but the number of shares to which the award relates will be pro-rated down to reflect that proportion of the usual three-year period which has elapsed at the time of cessation of employment. The Remuneration Committee would determine the basis on which the performance

Directors' Remuneration Report continued

conditions would apply in these circumstances. If a participant ceases to be employed for any other reason, awards will lapse unless the Remuneration Committee in its discretion permits otherwise. In the event of a change in control of the Company (other than as a result of a re-organisation) participants will normally be entitled to receive the shares in respect of which an award has been made, subject to the application of a modified version of the performance condition that applies to the award. Benefits under the LTPSP are not pensionable.

LTPSP awards were granted during the year giving executive directors and other employees of the Company the right to receive, subject to the achievement of performance conditions, a maximum of 3,117,923 ordinary shares, of which 2,167,923 related to directors as detailed on page 46 (2010: 2,344,027 and 2,042,020 respectively).

The performance conditions attaching to the LTPSP awards are designed to be challenging and relate to both market and non-market performance conditions measured over a three-year period.

Market targets – up to 50% of the shares subject to performance targets

The market targets require the achievement of a measure of TSR against the TSR of the FTSE techMARK All-Share Index (Comparator Group). A quarter of the shares in this part of the award would be received if Torotrak's TSR was ranked at a required percentage constituent within the Comparator Group (Required Percentage). The maximum number of shares in this part of the award would vest if Torotrak's TSR was at or above a defined upper percentage (Stretch Percentage) of the Comparator Group. A sliding scale operates between the two levels of award. No shares in this part of the award would be received if at the vesting date Torotrak's TSR was not at or above the Required Percentage

Non-market targets – up to 50% of the shares subject to performance targets

The non-market targets require the achievement of a measure of operating performance (Operating Performance Measure) for the three-year period: commencing at the beginning of the financial year in which the award is granted. A quarter of the shares in this part of the award would be received if that operating performance met a required target (Required Target). The maximum number of shares in this part of the award would be received if the Required Target was exceeded by a considerable margin (Stretch Target). A sliding scale will operate in between the two levels of award. No shares would be received in this part of the award if the Required Target was not achieved or exceeded

The performance conditions for the LTPSP awards which have not yet vested are as follows:

Awards under LTPSP	Market targets – up to 50% of the shares subject to performance targets Required and Stretch Percentages	Non-market targets – up to 50% of the shares subject to performance targets Operating Performance Measure
Year ended 31 March 2008	Required Percentage: 40% ranking from the top of the Comparator Group Stretch Percentage: 25% ranking from the top of the Comparator Group	Cumulative Operating Cash Flow set by reference to the 19 July 2007 Prospectus used in relation to the Placing and Open Offer
Year ended 31 March 2009	Required Percentage: 40% ranking from the top of the Comparator Group Stretch Percentage: 25% ranking from the top of the Comparator Group	Cumulative Operating Cash Flow set by reference to the 2008 Business Plan
Year ended 31 March 2010	Required Percentage: 40% ranking from the top of the Comparator Group Stretch Percentage: 25% ranking from the top of the Comparator Group	Cumulative Net Cash Flow set by reference to the 2009 Business Plan
Year ended 31 March 2011	Required Percentage: 40% ranking from the top of the Comparator Group Stretch Percentage: 25% ranking from the top of the Comparator Group	Cumulative Net Cash Flow set by reference to the 2010 Business Plan

Directors' Remuneration Report continued

LTPSP award granted on 27 September 2007 – performance conditions determined and vesting

The Market Conditions element of the awards were not met and hence no shares are capable of vesting under this part of the award. Under the Non Market Conditions part of the award, the upper target for Cumulative Operating Cash Flow was exceeded and hence the full level of shares under this part of the award is capable of vesting. Hence in total, 50% of the maximum number of shares awarded under the scheme for the year ended 31 March 2008 can vest, representing 1,258,684 shares. Of these, 16,440 have so far been exercised and none of these related to the executive directors.

The Torotrak Approved and Unapproved Share Option Schemes

These schemes have, for executive directors and certain senior managers, been replaced by the LTPSP with effect from the year ended 31 March 2007. No awards under the share option schemes have been made to executive directors in the current financial year to 31 March 2011 or in the prior year. No options were granted under these schemes during the year (2010: nil).

The Company operates the Torotrak HMRC approved share option scheme ("the Approved Scheme") and an unapproved share option scheme ("the Unapproved Scheme"). Information on previous grants to directors is set out on page 46 and to all employees on page 76. Upon expiry of the previous scheme, a new scheme was approved by shareholders at the 28 July 2009 Annual General Meeting. The expired schemes were open to all employees, including executive directors. The Unapproved Scheme was open to both UK and non-UK resident employees and executive directors. The grant of options was at the discretion of the directors upon recommendation by the Remuneration Committee. The annual exercise price of shares under option granted to an individual under both schemes could not normally exceed two times the employee's salary. The latest date for exercise of options under both schemes was ten years from the date of grant. The earliest date was dependent upon achievement of the performance criteria. The maximum number of shares over which options could be granted when aggregated with shares issued or issuable under all the share schemes operated by the Company could not, in any ten year period, exceed 10% of the issued ordinary share capital of the Company.

Share options that have been granted under the expired schemes are subject to specific conditions determined prior to grant with performance conditions as follows:

Awards under share option schemes	Market related conditions	Non-market related conditions
Prior to year ended 31 March 2001	No market related performance conditions	Achieve market launch of the Torotrak IVT in series production vehicles; and Earn £20 million in revenue
Year ended 31 March 2002	Require that the average share price over the 30 days up to the performance test date should be: 75 pence for one third of the options to vest 150 pence for two thirds of the options to vest 250 pence for all the options to vest	No non-market related performance conditions
Years ended 31 March 2003 to 31 March 2005	An average closing mid-share price over a period of 30 days leading up to the performance testing date of 250 pence for one third of the options to vest	Confirmation of a production decision by a major car manufacturer and / or Tier-One transmission supplier for one third of the options to vest Market launch of the Torotrak IVT in series production vehicles for the final third of the options to vest
Year ended 31 March 2009*	No performance conditions	No performance conditions
Year ended 31 March 2010	No options granted	No options granted
Year ended 31 March 2011	No options granted	No options granted

* no options granted to executive directors

Directors' Remuneration Report continued

The Torotrak Savings-Related Share Option Scheme ('Sharesave Scheme')

In addition to the above long-term incentive scheme, the Company operates a savings-related share option scheme, details of which are given on page 75.

SIP Scheme

The SIP is constituted under the rules of the Torotrak Employee Benefits Trust. The SIP has been approved by HM Revenue & Customs under schedule 2 to the Income Tax (Earnings and Pensions) Act 2003.

Eligibility

All full-time and part-time employees and executive directors of the Company are eligible to join the scheme.

Non-executive directors of the Company are not eligible to participate in the SIP.

Trustee

The SIP is operated through a UK-resident trust, the trustee is Torotrak (Holdings) Limited (the "Trustee").

The SIP is structured to allow for the Trustee to subscribe for, or purchase, ordinary shares in the Company. The money to acquire these shares is provided to the Trustee either by the Company (or the relevant employing company) or, in the case of Partnership Shares (see below), by deduction from the participant's pre-tax salary.

Awards of Shares

The SIP provides up to four ways for eligible employees to obtain shares through the award of Free Shares, Partnership Shares, Matching Shares and/or Dividend Shares, the principal features of which are set out below. The Company can, at its discretion, offer any or all of these awards to eligible employees. All SIP shares are initially acquired on behalf of participants and held for them by the Trustee.

Free Shares

Free Shares were awarded to each eligible employee up to a maximum market value of £3,000 in each tax year. Free Shares were awarded on a similar basis to all employees, being 3% of salary. There were no performance conditions.

A holding period of three years from date of award applies to Free Shares, during which time the participant may not withdraw the Free Shares from the SIP unless he or she leaves employment. The Company may determine that the employee may forfeit all or part of his or her Free Share award if the shares are removed from the SIP within a period of up to three years from the date of award. Forfeiture will not apply in the event that the employee ceases employment because of death, injury, disability, redundancy, sale of the employing business or company, or retirement on or after reaching the age of 65.

Partnership Shares

The Company allowed employees to apply pre-tax salary to purchase Partnership Shares up to the permitted limit of £1,500 per tax year.

Matching Shares

The Company offered two Matching Shares free to an employee who purchased Partnership Shares. All awards of matching shares were made on the same basis to all employees and are subject to the same holding periods as Free Shares. The Company specified that Matching Shares would be forfeited if employees withdrew their Partnership Shares or left employment other than because of death, injury, disability, redundancy, sale of the employing business or company, or retirement on or after reaching the age of 65 within a period of up to three years from the date of award.

The executive directors decided not to participate in this scheme.

The non-executive directors were not entitled to participate in the scheme.

The number of shares issued under the scheme:-

Free shares	224,352
Partnership shares	187,714
Matching shares	375,428
Total shares	787,494

Directors' Remuneration Report continued

Non-executive directors' letters of appointment

The non-executive directors do not have service contracts. However, each of them has a letter of appointment which contains a notice period of three months. The letters of appointment of John Grant (retired 31 May 2011) and David MacKay (resigned 31 March 2011) were dated 30 June 2006. Nick Barter's letter of appointment is dated 30 June 2006 and John Weston's letter of appointment is dated 3 May 2011. The letters of appointment set out the expected time commitment; any other significant time commitments of the non-executive directors are disclosed to the Board and substantial changes brought to the Board's attention. Non-executive directors are not appointed for specific terms but are subject to re-election by shareholders every three years or earlier, subject to the Articles of Association.

Non-executive directors' remuneration

The remuneration of non-executive directors is established by the Board within the limits set out in the Articles of Association. Non-executive directors do not participate in the Company's employee share option schemes or the LTPSP, are not eligible for bonuses and do not receive any other benefits or pension rights under the pension scheme.

Upon appointment as a director on 1 June 2011, John Weston has been made a conditional one off grant of share options subject to shareholder approval at the Company's Annual General Meeting on 29 July 2011. The exercise price is set at the average of the closing mid share price of the Company for the five days following the Company's Preliminary Announcement on 25 May 2011. Options over shares will be conditionally granted up to a maximum of £140,000 in value and only to the extent that shares are also personally acquired. Options would vest between three and ten years after grant as to 50% if the share price increases by at least 33% and as to 100% if the share price increases by at least 67% over a defined period. Full details are contained in the Notice of Annual General Meeting to be held on 29 July 2011.

Directors' remuneration (audited information)

	Salary & fees £000	Benefits in kind £000 ⁽ⁱ⁾	Bonus £000	Payments connected to termination as a director £000	Total (excl pension) £000	Company pension £000	Total (inc pension) 2011 £000	Total 2010 £000
Executive directors								
Dick Elsy	238	23	100	–	361	36	397	374
James Batchelor	154	23	50	106	333	23	356	244
Jeremy Deering	172	15	75	–	262	26	288	273
Non-executive directors								
John Grant	50	1	–	–	51	–	51	51
Nick Barter	25	1	–	–	26	–	26	26
David MacKay	25	–	–	–	25	–	25	25
Total directors' emoluments	664	63	225	106	1,058	85	1,143	993

Notes

(i) Benefits in kind include car allowance, fuel, death in service and income protection cover plus medical insurance, for all executive directors

Directors' Remuneration Report continued

Directors' interests in share capital (audited information)

The interests of the directors (including beneficial interests) in the share capital of the Company at 31 March 2011 were as follows:

	31 March 2011 Number of shares	31 March 2010 Number of shares
Dick Elsy	709,002	709,002
James Batchelor	300,777	295,859
Jeremy Deering	381,216	381,216
John Grant	409,336	409,336
Nick Barter	67,041	67,041
David MacKay	44,667	44,667

Between 31 March 2011 and the date of this report there have been no dealings in shares by any of the directors.

Directors' interests in share options and awards over shares under the LTPSP (audited information)

	Notes	Options and awards over shares at 1 April 2010 Number	Awards over shares granted during the year Number	Exercised during the year Number	Cancelled during the year Number	Options and awards over shares at 31 March 2011 Number	Exercise price £	Earliest exercise date(iii)
Dick Elsy								
Approved		146,341	–	–	–	146,341	0.205	Jan 2006
Unapproved		393,659	–	–	–	393,659	0.205	Jan 2006
SAYE	(ii)	40,513	–	–	–	40,513	0.224	Aug 2012
LTPSP	(i)	803,272	–	–	(401,636)	401,636	(i)	Sept 2010
LTPSP	(i)	854,758	–	–	–	854,758	(i)	Aug 2011
LTPSP	(i)	888,598	–	–	–	888,598	(i)	Sept 2012
LTPSP	(i)	–	1,003,012	–	–	1,003,012	(i)	Dec 2013
James Batchelor								
Approved		193,548	–	–	–	193,548	0.155	Mar 2006
Unapproved		121,452	–	–	–	121,452	0.155	Mar 2006
SAYE	(ii)	40,513	–	–	–	40,513	0.224	Aug 2012
LTPSP	(i)	473,444	–	–	(236,722)	236,722	(i)	Sept 2010
LTPSP	(i)	553,628	–	–	–	553,628	(i)	Aug 2011
LTPSP	(i)	576,711	–	–	–	576,711	(i)	Sept 2012
LTPSP	(i)	–	390,834	–	–	390,834	(i)	Dec 2013
Jeremy Deering								
LTPSP	(i)	625,926	–	–	(312,963)	312,963	(i)	Sept 2010
LTPSP	(i)	442,058	–	–	–	442,058	(i)	Aug 2011
LTPSP	(i)	576,711	–	–	–	576,711	(i)	Sept 2012
LTPSP	(i)	–	774,077	–	–	774,077	(i)	Dec 2013

Notes:

- (i) These awards were granted under the LTPSP scheme and each award of shares is satisfied by the exercise of an option for the sum of £1. Dick Elsy, James Batchelor and Jeremy Deering each received one award of shares in the year.
- (ii) The SAYE is a three year scheme.
- (iii) All approved and unapproved schemes expire seven years following the earliest exercise date. In the case of LTPSP schemes, awards normally have to be exercised within one year of the expiry date.

Directors' Remuneration Report continued

The mid-market price of the ordinary shares on 31 March 2011 was £0.39. During the year, the highest mid-market price was £0.4925 and the lowest was £0.185. The average price was £0.2297.

Aggregate gains on LTPSP scheme during the year

The LTPSP awards issued in September 2007 and capable of vesting as of September 2010 have not yet been exercised. The LTPSP awards issued in September 2006 and exercised during the year ended 31 March 2010 resulted in a gain of £192,000, calculated as the difference between the exercise price of the awards and the market value of the shares on the date of exercise.

Approved by the Board and signed on its behalf by:

Nick Barter
Chairman of the Remuneration Committee
25 May 2011

Statement of Directors' Responsibilities

The directors are responsible for preparing the Annual Report, the Directors' Remuneration Report and the Financial Statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the Group and Parent Company Financial Statements (the "Financial Statements") in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union ('EU'). Under company law the directors must not approve the Financial Statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and the Company and of the profit or loss of the Group for that period. In preparing these Financial Statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable IFRSs as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the Financial Statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and the Group and enable them to ensure that the financial statements and the Directors' Remuneration Report comply with the Companies Act 2006 and, as regards the Group Financial Statements, Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Directors' statement pursuant to the disclosure and transparency rules

Each of the directors, whose names and functions are listed on pages 30 and 31 of the Annual Report, confirm that, to the best of their knowledge:

- the Group Financial Statements, which have been prepared in accordance with IFRSs as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and loss of the Group; and
- the Chairman's Review, Chief Executive's Review, Strategy and Business Overview, Financial Review and Directors' Report contained in the Annual Report include a fair review of the development and performance of the business and the position of the Group, together with a description of the principal risks and uncertainties that it faces.

By order of the Board:

Jeremy Deering
Company Secretary
25 May 2011

Auditors' Report

Independent auditors' report to the members of Torotrak plc

We have audited the Group and Parent Company Financial Statements (the "Financial Statements") of Torotrak plc for the year ended 31 March 2011, which comprise the Consolidated Income Statement, the Consolidated Statement of Comprehensive Income, the Group and Parent Company Balance Sheets, the Group and Parent Company Statements of Changes in Equity, the Group and Parent Company Statements of Cash Flow, and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the Parent Company Financial Statements, as applied in accordance with the provisions of the Companies Act 2006.

Respective responsibilities of directors and auditors

As explained more fully in the Statement of Directors' Responsibilities set out on page 48, the directors are responsible for the preparation of the Financial Statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the Financial Statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Scope of the audit of the Financial Statements

An audit involves obtaining evidence about the amounts and disclosures in the Financial Statements sufficient to give reasonable assurance that the Financial Statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's and the Parent Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the Financial Statements. In addition, we read all the financial and non-financial information in the Annual Report and Financial Statements to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on Financial Statements

In our opinion:

- the Financial Statements give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 March 2011 and of the Group's loss and Group's and Parent Company's cash flows for the year then ended;
- the Group Financial Statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the Parent Company Financial Statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the Financial Statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group Financial Statements, Article 4 of the IAS Regulation.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006; and,
- the information given in the Directors' Report for the financial year for which the Financial Statements are prepared is consistent with the Financial Statements.

Auditors' Report continued

Matters on which we are required to report by exception

We have nothing to report in respect of the following:

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 and the part of the Directors' Remuneration Report to be audited 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.

Under the Listing Rules we are required to review:

- the Directors' Statement, set out on page 35, in relation to going concern;
- the parts of the Corporate Governance Statement relating to the Company's compliance with the nine provisions of the June 2008 Combined Code specified for our review; and,
- certain elements of the report to shareholders by the Board on directors' remuneration.

Martin Heath (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Manchester
25 May 2011

Financial Statements

Consolidated Income Statement

For the year ended 31 March 2011	Notes	Group 2011 £000	Restated* Group 2010 £000
Revenue	2	5,066	7,641
Direct costs	2	(1,270)	(543)
		3,796	7,098
Development expenses	2	(4,861)	(4,605)
Administrative expenses		(1,861)	(1,814)
Operating (loss)/profit before exceptional item	3	(2,926)	679
Exceptional item	4	(659)	–
Operating (loss)/profit after exceptional item		(3,585)	679
Finance income	5	85	140
(Loss)/profit before income tax		(3,500)	819
Income tax credit	6	188	190
(Loss)/profit for the year attributable to continuing operations		(3,312)	1,009
Discontinued operations	7	215	(622)
(Loss)/profit for the year attributable to the shareholders of the parent company		(3,097)	387
Basic (loss)/earnings per share (pence)	9	(1.91)	0.24
Diluted (loss)/earnings per share (pence)	9	(1.91)	0.23
Basic (loss)/earnings per share (pence) from continuing operations	9	(2.05)	0.63
Diluted (loss)/earnings per share (pence) from continuing operations	9	(2.05)	0.61

* 2010 results have been restated to eliminate the activities of Infnittrak LLC which are discontinued in the current year.

Consolidated Statement of Comprehensive Income

For the year ended 31 March 2011	Group 2011 £000	Group 2010 £000
(Loss)/profit for the year – continuing operations	(3,312)	1,009
Profit/(loss) for the year – discontinued operations	215	(622)
Currency translation differences	(13)	19
Total comprehensive (expense)/income for the year	(3,110)	406

Financial Statements continued

Balance Sheets

As at 31 March 2011	Notes	Group 2011 £000	Group 2010 £000	Company 2011 £000	Company 2010 £000
Assets					
Non-current assets					
Intangible assets	10	1,322	1,350	–	–
Property, plant and equipment	11	700	1,028	351	429
Investments	12	253	–	8,976	8,713
Trade and other receivables	14	192	457	55,480	52,131
Total non-current assets		2,467	2,835	64,807	61,273
Current assets					
Inventories	13	120	384	–	–
Trade and other receivables	14	2,265	450	79	108
Current tax	15	1	262	–	–
Cash and cash equivalents	16	8,271	13,092	7,851	12,893
Total current assets		10,657	14,188	7,930	13,001
Total assets		13,124	17,023	72,737	74,274
Liabilities					
Non-current liabilities					
Joint venture loan	17	(45)	(457)	–	–
Current liabilities					
Trade and other payables	17	(1,846)	(2,660)	(202)	(149)
Total liabilities		(1,891)	(3,117)	(202)	(149)
Net assets		11,233	13,906	72,535	74,125
Capital and reserves					
Issued share capital	18	16,254	16,173	16,254	16,173
Share premium		53,646	53,646	53,646	53,646
Other reserves		(79)	(31)	(79)	(31)
(Accumulated loss)/retained earnings		(58,588)	(55,882)	2,714	4,337
Total equity attributable to equity holders of the Parent		11,233	13,906	72,535	74,125

The accounting policies and notes on pages 55 to 80 form part of these Financial Statements.

The Financial Statements on pages 51 to 80 were approved by the Board of Directors on 25 May 2011 and signed on its behalf by:
Dick Elsy – Director

Consolidated Statement of Changes in Equity

	Group and Company share capital £000	Group and Company share premium account £000	Group and Company other reserves £000	Group accumulated loss £000	Total equity £000	Company profit/(loss) £000
Balance at 1 April 2009 (restated)	16,069	53,646	(31)	(56,499)	13,185	5,443
Comprehensive income						
Profit/(loss) for the period	–	–	–	387	387	(1,376)
Other comprehensive income						
JV currency translation difference	–	–	–	19	19	59
Total other comprehensive income	–	–	–	19	19	59
Total comprehensive income	–	–	–	406	406	(1,317)
Transactions with owners						
Share based payment charge	–	–	–	315	315	315
Issue of shares from exercise of LTPSP	104	–	–	(104)	–	(104)
Total transactions with owners	104	–	–	211	315	211
Balance at 1 April 2010	16,173	53,646	(31)	(55,882)	13,906	4,337
Comprehensive income						
Loss for the period	–	–	–	(3,097)	(3,097)	(1,988)
Other comprehensive expense						
JV currency translation difference	–	–	–	(13)	(13)	(39)
Total other comprehensive expense	–	–	–	(13)	(13)	(39)
Total comprehensive expense	–	–	–	(3,110)	(3,110)	(2,027)
Transactions with owners						
Closure of trust	–	–	12	(4)	8	(4)
Shares awarded at cost price	–	–	19	(19)	–	(19)
Issue of shares under share incentive plan	79	–	(79)	–	–	–
Share based payment charge	–	–	–	429	429	429
Issue of shares from exercise of LTPSP	2	–	–	(2)	–	(2)
Total transaction with owners	81	–	(48)	404	437	404
Balance at 31 March 2011	16,254	53,646	(79)	(58,588)	11,233	2,714

The Group and Company other reserves at 31 March 2011 represents 787,494 ordinary shares of 10p each issued to Torotrak (Holdings) Limited, which have been charged against reserves at 31 March 2011. These shares represent the free, partnership and matching shares issued during the year.

Financial Statements continued

Statement of Cash Flows

		Group	Group	Company	Company
		2011	2010	2011	2010
	Notes	£000	£00	£000	£000
For the year ended 31 March 2011					
Cash flows from operating activities					
(Loss)/profit for the year		(3,097)	387	(1,988)	(1,376)
Adjustments for:					
Depreciation	11	255	403	78	78
Amortisation	10	132	138	–	–
Finance income receivable	5	(85)	(140)	(117)	(110)
(Profit)/loss on disposal of joint venture	7	(411)	–	944	–
(Profit)/Loss on disposal of plant and equipment	3	(30)	12	–	–
Loss on disposal of intangible assets	3	211	149	–	–
Taxation	6	(188)	(190)	–	–
Decrease/(Increase) in inventories		264	(330)	–	–
(Increase)/decrease in trade and other receivables		(1,444)	(84)	(4,462)	5,702
(Decrease)/increase in trade and other payables		(1,239)	(2,039)	49	(74)
Cost of equity-settled employee share schemes and bonuses		429	315	429	315
Cash (used)/generated in operations		(5,203)	(1,379)	(5,067)	4,535
Income tax received		449	258	–	–
Net cash (used)/generated in operating activities		(4,754)	(1,121)	(5,067)	4,535
Cash flows from investing activities					
Acquisition of property, plant and equipment		(345)	(517)	–	–
Acquisition of patents		(279)	(399)	–	–
Acquisition of investment		(253)	–	(263)	–
Loan to Rotrex A/S		(147)	–	(147)	–
Loan to Rotrak		–	–	(90)	–
Proceeds from sale of plant and equipment		34	–	–	–
Proceeds from closure of joint venture	7	943	–	443	–
Finance income received		87	135	119	101
Net cash generated/(used) in investing activities		40	(781)	62	101
Net (decrease)/increase in cash and cash equivalents					
		(4,714)	(1,902)	(5,005)	4,636
Cash and cash equivalents at start of year		13,092	14,975	12,893	8,257
Joint venture cash disposed of		(94)	–	–	–
Exchange gain on currency translation		(13)	19	(37)	–
Cash and cash equivalents at end of year	16	8,271	13,092	7,851	12,893
Cash and cash equivalents held in the JV not under direct control of the Group (included above)					
		100	107	–	–

The accounting policies and notes on pages 55 to 80 form part of these Financial Statements which was approved by the Board of Directors on 25 May 2011.

Notes to the Financial Statements

Notes to the Financial Statements

1. Significant accounting policies

Torotrak plc (the "Company") (Registered number: 3580465) is a publicly traded company incorporated and domiciled in the UK. The address for the registered office is shown on page 92.

The principal accounting policies applied in the preparation of these consolidated Financial Statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

Basis of preparation

The consolidated Financial Statements of Torotrak plc have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU), IFRIC interpretations and the Companies Act 2006 applicable to Companies reporting under IFRS. The consolidated Financial Statements have been prepared under the historical cost convention.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires Management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated Financial Statements are disclosed below.

(a) Standards, amendments and interpretations to existing standards effective in 2010 but not relevant to the Group

- IFRS 3 (revised), 'Business combinations', and consequential amendments to IAS 27, 'Consolidated and separate financial statements', IAS 28, 'Investments in associates', and IAS 31, 'Interests in joint ventures', are effective prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009. This is not currently applicable to the Group, as it has not made any business combinations transactions.
- IFRIC 17, 'Distributions of non-cash assets to owners', effective for annual periods beginning on or after 1 July 2009. This is not currently applicable to the Group, as it has not made any non-cash distributions.
- IFRIC 18, 'Transfers of assets from customers', effective for transfer of assets received on or after 1 July 2009. This is not relevant to the Group, as it has not received any assets from customers.
- 'Additional exemptions for first-time adopters' (Amendment to IFRS 1) was issued in July 2009. The amendments are required to be applied for annual periods beginning on or after 1 January 2010. This is not relevant to the Group, as it is an existing IFRS preparer.

(b) The following new standards, new interpretations and amendments to standards and interpretations have been issued but are not effective for the financial year beginning 1 April 2010 and have not been early adopted:

- IFRS 9, 'Financial instruments', issued in December 2009. This addresses the classification and measurement of financial assets and is likely to affect the Group's accounting for its financial assets. The standard is not applicable until 1 January 2013 but is available for early adoption. The Group is yet to assess IFRS 9's full impact. However, initial indications are that it may affect the Group's accounting for its available-for-sale financial assets, as IFRS 9 only permits the recognition of fair value gains and losses in other comprehensive income if they relate to equity investments that are not held for trading. Fair value gains and losses on available-for-sale debt investments, for example, will therefore have to be recognised directly in profit or loss. In the current reporting period, the Group recognised £13k of such losses in other comprehensive income. The Group has not yet decided when to adopt IFRS 9.
- Revised IAS 24, 'Related party disclosures', issued in November 2009. It supersedes IAS 24, 'Related party disclosures', issued in 2003. The revised IAS 24 is required to be applied from 1 January 2011. Earlier application, in whole or in part, is permitted.
- 'Classification of rights issues' (Amendment to IAS 32), issued in October 2009. For rights issues offered for a fixed amount of foreign currency, current practice appears to require such issues to be accounted for as derivative liabilities. The amendment states that if such rights are issued pro rata to all the entity's existing shareholders in the same class for a fixed amount of currency, they should be classified as equity regardless of the currency in which the exercise price is denominated. The amendment should be applied for annual periods beginning on or after 1 February 2010. Earlier application is permitted.
- 'Prepayments of a minimum funding requirement' (Amendments to IFRIC 14), issued in November 2009. The amendments correct an unintended consequence of IFRIC 14, 'IAS 19 - The limit on a defined benefit asset, minimum funding requirements and their

Notes to the Financial Statements continued

interaction'. Without the amendments, entities are not permitted to recognise as an asset some voluntary prepayments for minimum funding contributions. This was not intended when IFRIC 14 was issued, and the amendments correct the problem. The amendments are effective for annual periods beginning 1 January 2011. Earlier application is permitted. The amendments should be applied retrospectively to the earliest comparative period presented.

- IFRIC 19, 'Extinguishing financial liabilities with equity instruments'. This clarifies the requirements of IFRSs when an entity renegotiates the terms of a financial liability with its creditor and the creditor agrees to accept the entity's shares or other equity instruments to settle the financial liability fully or partially. The interpretation is effective for annual periods beginning on or after 1 July 2010. Earlier application is permitted.
- Improvements to International Financial Reporting Standards 2010 were issued in May 2010. The effective dates vary standard by standard but most are effective 1 January 2011.

Basis of consolidation

Subsidiaries are entities controlled by the Group. Control exists when the Group 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.

Jointly controlled entities are those entities over whose activities the Group has joint control, established by contractual agreement. The consolidated Financial Statements include the Group's share of each line of the Income Statement, Statement of Comprehensive Income, Balance Sheet, Statement of Cash Flows and related notes to the Financial Statements on a proportionate consolidation basis, from the date that joint control commences until the date that joint control ceases.

Foreign currency

a) Foreign currency transactions

The Company's functional currency is UK Sterling. Transactions in foreign currencies are translated into its functional currency at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the Balance Sheet date are translated at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the Income Statement. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated at foreign exchange rates ruling at the dates the fair value was determined.

b) Foreign operations

The Joint Venture's functional currency is US Dollars. Exchange differences arising on the retranslation of the jointly controlled entity Income Statements and Balance Sheet are taken to reserves. Income Statement balances are translated at the monthly average exchange rate in the month of the transaction.

Investments

In the Company's Financial Statements, investments in jointly controlled entities and subsidiaries are carried at cost less impairment.

Patent and other intellectual property rights

Patents are stated at cost less accumulated amortisation and impairment losses. Cost includes the cost of obtaining patent protection for intellectual property rights (IPR) on technologies arising from inventive ideas. Income from patents is derived through licensing and other agreements.

Such expenditure is amortised in a manner calculated to write off the cost, in equal annual proportions, over the effective life of the underlying patent or other IPR up to a maximum of 20 years. In the event that a patent is abandoned or is considered to have suffered a full impairment in value at any time before the expiry of its granted life, the balance of unamortised expenditure is charged to the Income Statement in the year in which the abandonment or other impairment in value takes place.

Property, plant and equipment

Property, plant and equipment are stated at historical cost less depreciation and impairment losses. Historical cost includes expenditure that is attributable to the acquisition of the items.

Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

The assets' residual values and useful lives are reviewed and adjusted if appropriate at each Balance Sheet date.

Depreciation

Once the item of property, plant and equipment has been commissioned for use, depreciation is charged to the Income Statement to allocate their cost to their residual values over the estimated useful lives of each part of an item of property, plant and equipment. Tooling assets are depreciated following the start of commercial production that utilises those assets, or earlier if the date of commercial production cannot be determined. The depreciation rates are as follows:

	%	
Plant, machinery and equipment	25	Straight line
Computer hardware	33	Straight line
Computer software	33	Straight line
Office furniture and fittings	20	Straight line
Test vehicles	50	Straight line
Leasehold improvements	10	Straight line
Tooling	20	Straight line

Trade and other receivables

Trade and other receivables represent the fair value of sales or other income for which payment has not yet been received. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulty of the debtor is considered an indicator that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the expected realisable value. The impairment is charged to the Income Statement.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits with an original maturity of three months or less. Bank deposits with a maturity over three months, but to which the Group has readily available access subject to forfeiture of interest and possible penalties, are also classified as cash.

Impairment

The carrying amounts of the Group's assets are reviewed at each Balance Sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. The recoverable amount is the financial value less cost to sell.

An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in the Income Statement.

Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any intangible asset allocated to cash-generating units and then to reduce the carrying amount of the other assets in the unit on a pro-rata basis. A cash-generating unit is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets.

An impairment loss is reversed when there is an indication that the impairment may no longer exist and there has been a change in the estimates used to determine the recoverable amount.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Notes to the Financial Statements continued

Trade payables

Trade payables represent the fair value of goods or services that have been received but where payment has not yet been made.

Pension costs

The pension scheme operated by the Group is a defined contribution money purchase scheme and pension costs are charged to the Income Statement as incurred.

Research and development

Expenditure on research activities is recognised in the Income Statement as an expense as incurred.

Expenditure on development activities is capitalised if it relates to an identified and profitable project with commercial exploitation that carries production targets and start dates. No development expenditure has been capitalised to date.

Leases

Operating lease rentals are charged to the Income Statement on a straight line basis over the period of the lease.

Operating lease income is accrued within the Income Statement on a straight line basis over the minimum lease period.

Revenue

Revenue is measured at the fair value of the consideration received or receivable net of Value Added Tax.

a) Engineering services or development agreements

Revenue from projects relating to engineering services or development agreements is recognised when the outcome of a project can be estimated reliably and the associated economic benefits will flow to the Group. Revenue and costs are recognised by reference to the stage of completion of the project at the Balance Sheet date. Stage of completion is assessed by reference to the proportion of costs incurred for work performed relative to the estimated total costs of the project at the Balance Sheet date and taking account of any specific contractual conditions that may be appropriate. Where it is probable that total contract costs will exceed the revenue realisable under the entire agreement, then the expected loss is recognised as an expense immediately.

Where licence agreements incorporate separable fair value attributable to engineering services or development activities, then the fair value of those activities will be separately accounted for on the same basis as for an engineering services or development agreement.

b) Licence and royalty agreements

Revenue from licence and royalty agreements is only recognised to the extent that the economic benefits are likely to flow to the Group. Revenue from the assignment of intellectual property rights is recognised when the risks and rewards of the rights have been transferred to the licensee. The risks and rewards of the rights are considered to be transferred when all of the following conditions have been satisfied: the rights have been transferred under a non-cancellable contract; the licensee has received delivery or has been given access to the rights; the licensee is permitted to use the rights freely according to the scope of the agreement; and the Group has no material remaining obligations under the agreement. Licence income that is conditional on an event outside the direct control of the Group is credited to the Income Statement when the conditionality ceases according to the achievement of contract specific conditions or where the customer or the Group either executes or refrains from the execution of rights under that agreement. Royalties due under licence agreements are recognised on an accruals basis when they are earned, in accordance with the relevant agreement and royalty period.

c) Product sales by the Joint Venture

Revenue from the sale of goods is measured at the invoiced amount net of returns, early settlement discounts, rebates and sales taxes and is recognised only where there is persuasive evidence of an agreement, the delivery of goods has occurred, the sale price is determinable and that recoverability of amounts due under the relevant revenue agreement is reasonably assured.

Operating segments

'IFRS 8', provides additional information regarding business segments. Business segments are those areas of the business whose financial results are currently material and which form an important part of our planning and assessment of performance. These are currently:

- income generated from licence agreements
- engineering services
- development activities, including research and the creation of new intellectual property

Operating segments are identified in line with the internal management information reporting to the chief operating decision maker. The directors consider the chief operating decision maker to be the Board collectively and as such have adopted the reporting as included in monthly Board meetings papers for the purposes of segmental reporting.

Interest

Interest income and expenditure is recognised on a time accrued basis at the rate of interest according to the agreements governing the amount that is deposited or borrowed.

Inventory

Inventory is valued at the lower of cost and net realisable value. Cost is determined using the first-in, first-out (FIFO) method. Inventory has been reviewed on a project by project basis and provided for where it is not considered that further income will be generated to cover the costs of the inventory.

Current and deferred income tax

Tax on the profit or loss for the year comprises current and deferred tax and is recognised in the Income Statement. Current tax is the expected tax payable on the taxable income for the year and/or tax credit receivable under the research and development scheme, using tax rates enacted or substantively enacted at the Balance Sheet date, and any adjustment to tax payable in respect of previous years.

Current tax assets are calculated in accordance with existing legislation. The company qualifies as a Small and Medium Enterprise (SME) as defined in the legislation and claims a tax refund in respect of qualifying research and development costs. It also claims allowance under the large scheme rules for research and development costs that do not comply with SME legislation but are in accordance with large company scheme rules.

Deferred tax is provided on temporary differences using the liability method between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: the initial recognition of assets or liabilities that affect neither accounting nor taxable profit other than in a business combination; and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the Balance Sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available in the immediate future against which the asset can be utilised.

Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Loans to the Employee Benefit Trust

Loans to the Employees Benefit Trust are charged to Capital and Reserves and are eliminated as the shares purchased from the loan are utilised.

Share-based scheme

The share option programmes allow Group employees to acquire shares of the Company. The fair value of share options granted is recognised as an employee expense with a corresponding increase in equity. The fair value is measured at grant date, using an appropriate pricing model taking into account the terms and conditions upon which the options were granted, and is spread over the period during which the employees become unconditionally entitled to the options. The amount recognised as an expense is adjusted to reflect the actual number of share options that vest, except where forfeiture is only due to share prices not achieving the threshold for vesting. Non-market vesting conditions are included in assumptions about the number of options that are expected to vest. At each

Notes to the Financial Statements continued

Balance Sheet date, the Company revises its estimates of the number of options that are expected to vest. The Company recognises the impact of the revision to original estimates, if any, in the Income Statement, with a corresponding adjustment to equity. Options will be equity settled. The Company National Insurance contributions that arise on the profit on exercising an option will be met by the employee.

For options granted before 7 November 2002, the recognition and measurement principles of IFRS 2 have not been applied in accordance with the transitional provisions of IFRS 1.

Any shares awarded to employees as a bonus are distributed from the Employee Benefit Trust and are charged to the Income Statement at market value with the corresponding charge to equity.

Exceptional items

Items that are material in size and non-operating or non-recurring in nature are presented as exceptional items in the income statement, within the relevant account heading. The directors are of the opinion that the separate recording of exceptional items provides helpful advice about the Group's underlying business performance.

Critical accounting estimates and assumptions

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires Management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated Financial Statements are as follows:

a) Intangible assets

The carrying value of our patent portfolio is assessed by an annual review of the commercial applicability of individual patent cases for potential abandonment as well as an estimate of the useful lives of the patents.

b) Revenue recognition

The Group recognises licence revenue on the basis that the risks and rewards of the rights to the intellectual property have been transferred to the licensee and the Group has no remaining obligations under the contract. The Group uses the percentage of completion method in accounting for fixed price engineering service contracts. The costs to complete are assessed based on the latest financial information.

2. Segmental analysis

Year ended 31 March 2011

	Engineering services ££000	Income from licence agreements £000	Development activities £000	Total £000
Revenue (by market)				
Commercial vehicles	2,144	2,719	–	4,863
Off-highway	2	–	–	2
Automotive	191	–	–	191
Other	10	–	–	10
	2,347	2,719	–	5,066
Direct costs	(1,235)	(35)	–	(1,270)
Gross profit	1,112	2,684	–	3,796
Other operating costs	–	–	(4,861)	(4,861)
Segmental (loss)	1,112	2,684	(4,861)	(1,065)
Other operating costs not allocated to segments				(1,861)
Continuing operating loss before exceptional items as reported in Income Statement				(2,926)

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2. Segmental analysis continued

Year ended 31 March 2010 – Restated

	Engineering services £000	Income from licence agreements £000	Development activities £000	Total £000
Revenue (by market)				
Commercial vehicles	1,466	6,027	–	7,493
Off-highway	30	–	–	30
Automotive	113	–	–	113
Other	5	–	–	5
	1,614	6,027	–	7,641
Direct costs	(458)	(85)	–	(543)
Gross profit	1,156	5,942	–	7,098
Other operating costs	–	–	(4,605)	(4,605)
Segmental contribution	1,156	5,942	(4,605)	2,493
Other operating costs not allocated to segments				(1,814)
Continuing operating profit before exceptional items as reported in Income Statement				679

Note 1. Development activities include research and the creation of intellectual property.

Note 2. 2010 results have been restated to eliminate the activities of Infnittrak LLC which were discontinued in the current year.

Significant customers

The following revenues are attributable to significant customers:

	Group 31 March 2011 £000	Group 31 March 2010 £000
European Truck and Bus Manufacturer	1,301	1,251
Allison Transmission, Inc	3,118	6,230

2. Segmental analysis continued

Business segment Balance Sheet

As at 31 March 2011

	Torotrak excluding Joint Venture £000	Rotrak Joint Venture £000	Group £000
Non-current assets			
Intangible assets	1,322	–	1,322
Property, plant and equipment	700	–	700
Trade and other receivables	400	45	445
Total non-current assets	2,422	45	2,467
Current assets	10,557	100	10,657
Total assets	12,979	145	13,124
Total liabilities	(1,846)	(45)	(1,891)
Net assets/(liabilities)	11,133	100	11,233

Business segment Balance Sheet

As at 31 March 2010

	Torotrak excluding Joint Venture £000	Infinitrak Joint Venture £000	Group £000
Non-current assets			
Intangible assets	1,280	70	1,350
Property, plant and equipment	613	415	1,028
Trade and other receivables	457	–	457
Total non-current assets	2,350	485	2,835
Current assets	14,078	110	14,188
Total assets	16,428	595	17,023
Total liabilities	(2,117)	(1,000)	(3,117)
Net assets/(liabilities)	14,311	(405)	13,906

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Notes to the Financial Statements continued

3. Continuing operating (loss)/profit

Continuing operating (loss)/profit is stated after charging/(crediting) the following:

	Group 2011 £000	Restated Group 2011 £000
Administrative costs		
Amortisation of intangible assets – patents	123	111
Abandonment and disposal of patents	211	60
(Profit)/loss on disposal of plant and equipment	(30)	12
Depreciation	255	205
Operating lease payments – land and buildings	280	280
– office equipment	31	19
Operating lease income – land and buildings	(105)	(105)
Auditors' remuneration:		
Audit services – audit (Group)	27	30
– audit (Company)	15	12
Non-audit services – tax services	–	20

2010 figures have been restated to remove amounts relating to Infnittrak which are now included in discontinued operations.

Expenses by nature

		Group 2011 £000	Restated Group 2010 £000	Company 2011 £000	Company 2010 £000
Employee costs	20	3,994	4,073	539	571
Depreciation and amortisation	3	378	316	78	78
Operating lease payments	3	311	299	–	–
Other development costs		637	364	–	–
Other administrative expenses		1,402	1,367	545	837
Total of development and administrative expenses		6,722	6,419	1,162	1,486

4. Exceptional item

	Group 2011 £000	Group 2010 £000
Reorganisation costs	659	–

The reorganisation costs relate to redundancy, severance and associated expenses in relation to a reduction in employees undertaken as part of a restructuring process.

5. Finance income

	Group 2011 £000	Group 2010 £000
Bank interest receivable	85	140

6. Income tax credit

	Group 2011 £000	Group 2010 £000
UK Corporation Tax		
Current tax for the year	90	209
Prior year tax	98	(19)
Total UK Corporation Tax	188	190

Factors affecting the tax credit for the current period:

The Finance Act 2000 introduced the Research and Development Tax Credit, which allows companies with qualifying expenditure to surrender their tax losses for cash. The effective tax rate for these credits is 24% compared to the current UK Corporation Tax rate of 28%.

The total tax credit for the period is lower (2010: higher) than the standard rate of Corporation Tax in the UK of 28% (2010: 28%). The differences are as follows:

	Group 2011 £000	Restated Group 2010 £000
(Loss)/profit before taxation	(3,500)	819
Expected current tax credit/charge at 28% (2009: 28%)	980	(229)
Non-taxable income/non-tax deductible (expenses)	(58)	(174)
Differences in tax rates on research and development related credits	(63)	142
Movement in unrecognised net deferred tax asset	(769)	470
Prior year adjustment	98	(19)
Total tax credit	188	190

Notes to the Financial Statements continued

6. Income tax credit continued

Factors that may affect future tax credits/(charges):

Future tax credits/(charges) will depend on the continued availability of the tax credit in respect of research and development expenditure. In addition, the Group has approximately £36 million (2010: £32 million) of tax losses and approximately £5.8 million (2010: £6.9 million) of unclaimed capital allowances that may be offset against future taxable profits. If the tax credit in respect of research and development expenditure in respect of 2010/11 is not claimed the tax losses available for offset against future taxable profits would be increased.

A number of changes to the UK Corporation tax system were announced in the March 2011 UK Budget Statement. Legislation to reduce the main rate of corporation tax from 26% to 25% from 1 April 2012 is expected to be included in the Finance Act 2011. Further reductions to the main rate are proposed to reduce the rate by 1% per annum to 23% by 1 April 2014. These further changes had not been substantively enacted at the balance sheet date and, therefore, are not included in these financial statements. As there are no provided deferred tax assets or liabilities, there is no deferred tax impact of the tax rate changes.

7. Discontinued operations

The result for discontinued operations comprises all transactions relating to Infnittrak LLC including: revenue and expenses to the date of withdrawal from the joint venture: and the gain on disposal of shares in Infnittrak.

	Group 2011 £000	Group 2010 £000	Company 2011 £000	Company 2010 £000
Revenue	1	3	–	–
Expenses	(197)	(625)	–	–
	(196)	(622)	–	–
Gain on disposal of discontinued operations				
Net proceeds after legal fees	943	–	443	–
Balance sheet movement				
Intangible asset	32	–	–	–
Property, plant and equipment	(407)	–	–	–
Current assets	(168)	–	–	–
Total liabilities	11	–	(1,387)	–
Net gain/(loss)	411	–	(944)	–
Total result for discontinued operations	215	(622)	(944)	–

8. Company loss for the financial period

No Income Statement is presented for the Company as permitted by section 408 of the Companies Act 2006. The Company's loss for the year was £1,988k (2010: loss £1,376k).

9. Earnings per share

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Parent for the period by the weighted average number of ordinary shares in issue during the year, excluding those held by the Employee Benefit Trust (EBT) (note 23). For diluted earnings per share, the weighted average number of ordinary shares in issue is adjusted to assume issue of all dilutive potential ordinary shares, being those share options with a non market-based performance condition granted to employees where the exercise price is less than the average market price of the ordinary shares during the year, and those shares with a market-based performance condition based on the current estimate of the number of shares that will vest under the performance criteria.

	Earnings 2011 £000	Basic earnings per share 2011 pence	Diluted earnings per share 2011 pence	Earnings 2010 £000	Basic earnings per share 2010 pence	Diluted earnings per share 2010 pence
(Loss)/profit attributable to equity holders of the Parent	(3,097)	(1.91)	(1.91)	387	0.24	0.23
(Loss)/profit for the year attributable to continuing operations	(3,312)	(2.05)	(2.05)	1,009	0.63	0.61
					31 March 2011 Number	31 March 2010 Number
Weighted average number of shares				161,727,704		160,782,946
Dilutive effect of share options				8,788,576		4,380,665
Diluted weighted average number of shares				170,516,280		165,163,611

For the year ended 31 March 2011 potential share options are antidilutive, as their inclusion in the diluted earnings per share calculation would reduce the loss from continuing operations, and hence have been excluded.

Notes to the Financial Statements continued

10. Intangible assets

This relates only to the Group.

	ToroTrak patents £000	InfiniTrak patents £000	Group £000
Cost			
At 1 April 2009	1,898	135	2,033
Expenditure in year	366	43	409
Abandoned in year	(82)	(89)	(171)
Currency translation	–	8	8
At 31 March 2010	2,182	97	2,279
Expenditure in year	376	13	389
Abandoned in year	(284)	(107)	(391)
Currency translation	–	(3)	(3)
At 31 March 2011	2,274	–	2,274
Accumulated amortisation			
At 1 April 2009	813	–	813
Charge for the year	111	27	138
Abandoned in year	(22)	–	(22)
At 31 March 2010	902	27	929
Charge for the year	123	9	132
Abandoned in the year	(73)	(36)	(109)
At 31 March 2011	952	–	952
Net book value			
At 31 March 2011	1,322	–	1,322
At 31 March 2010	1,280	70	1,350
At 1 April 2009	1,085	135	1,220

The carrying value of intangible patent assets, and their potential impairment, is regularly reviewed on a case by case basis, having regard to the commercial classification of a patent and its commercial applicability by market and territory. Expenditure relating to patent cases which do not meet defined criteria as approved by the Board of Directors, is consequently abandoned and the resulting costs charged to the Income Statement.

11. Property, plant and equipment

	Note 1 Leasehold improvements £000	Group office furniture and fittings £000	Group plant, machinery and equipment £000	Group computer equipment £000	Group test vehicles £000	Note 2 Group plant, machinery and equipment at Infnittrak £000	Total £000
Cost							
At 1 April 2009	911	118	3,857	1,620	172	444	7,122
Additions	–	–	102	55	–	365	522
Currency translation	–	–	–	–	–	(8)	(8)
Disposals	–	–	(2)	(1)	–	(10)	(13)
At 31 March 2010	911	118	3,957	1,674	172	791	7,623
Additions	–	–	117	220	10	6	353
Currency translation	–	–	–	–	–	(15)	(15)
Disposals	–	–	(454)	(5)	–	(782)	(1,241)
At 31 March 2011	911	118	3,620	1,889	182	–	6,720
Depreciation							
At 1 April 2009	404	118	3,822	1,499	172	178	6,193
Charge for the year	78	–	63	64	–	198	403
Disposals	–	–	–	(1)	–	–	(1)
At 31 March 2010	482	118	3,885	1,562	172	376	6,595
Charge for the year	78	–	68	103	6	–	255
Disposals	–	–	(454)	–	–	(376)	(830)
At 31 March 2011	560	118	3,499	1,665	178	–	6,020
Net book value							
At 31 March 2011	351	–	121	224	4	–	700
At 31 March 2010	429	–	72	112	–	415	1,028
At 1 April 2009	507	–	35	121	–	266	929

Note 1. At 1 April 2009 all property, plant and equipment related only to the Group and not to the Company.

During the year ended 31 March 2010 all leasehold improvements were transferred from Torotrak (Property) Ltd to Torotrak Plc as part of a group simplification. As a result, at 31 March 2011 and 2010 all leasehold improvements were held by the Company, which held no other property, plant or equipment.

Note 2. Plant, machinery and equipment at Infnittrak represents Torotrak's share of Infnittrak's fixed assets and is mainly machine tooling.

Notes to the Financial Statements continued

12. Investments

Investments in Subsidiary undertakings

	Company 31 March 2011 £000	Company 31 March 2010 £000
Cost and net book value		
At beginning of year	8,713	8,713
At end of year	8,713	8,713

Details of subsidiary undertakings are set out in note 24.

Other investments

	Group 31 March 2011 £000	Group 31 March 2010 £000	Company 31 March 2011 £000	Company 31 March 2010 £000
Cost and net book value				
Addition	253	–	263	–
At end of year	253	–	263	–

The addition in the year is a £263k investment in the Rotrak joint venture comprising £253k for the acquisition of a 15% stake in Rotrex A/S and £10k of equity funding for Rotrak Ltd.

Total investments

	Group 31 March 2011 £000	Group 31 March 2010 £000	Company 31 March 2011 £000	Company 31 March 2010 £000
Cost and net book value				
At beginning of year	–	–	8,713	8,713
Addition	253	–	263	–
At end of year	253	–	8,976	8,713

13. Inventories

	Group 31 March 2011 £000	Group 31 March 2010 £000
Raw materials	120	384

Inventory charged to direct costs in the Consolidated Income Statement is £747k (2010: £232k).

The Company holds no inventory.

14. Trade and other receivables

	Group 31 March 2011 £000	Group 31 March 2010 £000	Company 31 March 2011 £000	Company 31 March 2010 £000
Non-current assets				
Loan to the Joint Venture	45	457	90	915
Loan to Rotrex	147	–	147	–
Amounts owed by subsidiary undertakings	–	–	55,243	51,216
Total non-current assets	192	457	55,480	52,131
Current assets				
Trade receivables	71	61	–	–
Other receivables and accrued income	2,015	187	28	26
Prepayments	179	202	51	82
Total current assets	2,265	450	79	108

Amounts owed by subsidiary undertakings are recoverable on demand but are expected to be recovered after more than one year. No interest is charged on this receivable and no security is held.

There is no provision for impairment of receivables at 31 March 2011 (2010: £nil). Included in trade receivables is a balance of £53k which was overdue. The remainder of receivables are within normal due dates for collection.

15. Current income tax

	Group 31 March 2011 £000	Group 31 March 2010 £000
Research and development tax credits receivable	1	262

There is no taxation receivable in respect of the Company.

Notes to the Financial Statements continued

16. Cash and cash equivalents

Details of the Group's treasury objectives and policies can be found in the Financial Review on page 28.

The Group's main financial assets comprise short term bank deposits, cash and cash equivalents which are shown below:

	Group 31 March 2011 £000	Group 31 March 2010 £000	Company 31 March 2011 £000	Company 31 March 2010 £000
Cash	–	3	–	–
Sterling cash deposits	8,113	12,982	7,851	12,893
Foreign currency cash deposits	58	–	–	–
Cash held in Joint Venture	100	107	–	–
Total	8,271	13,092	7,851	12,893

The Sterling cash deposits comprise deposits placed on money markets during the year at call and terms up to three months. The weighted average interest rate on the deposits is 0.73% (2010: 0.87%) and the weighted average time for which the rate is fixed is 1.32 months (2010: 1.31 months).

The Group's only other financial assets/liabilities are trade receivables/trade payables arising from Group activities. The Group had no financial liabilities within the scope of IAS 39 as at 31 March 2011 (2010: £nil), apart from trade payables. The fair value of the Group's financial assets / liabilities are not materially different from their carrying values.

In respect of interest-earning financial assets the following table indicates their effective interest rates at the Balance Sheet date.

	Effective interest rate 2011	Effective interest rate 2010
Cash and cash equivalents	0.88%	0.86%

17. Trade and other payables

	Group 31 March 2011 £000	Group 31 March 2010 £000	Company 31 March 2011 £000	Company 31 March 2010 £000
Non-current liabilities				
Share of loan to Infinitrak LLC	–	457	–	–
Share of loan to Rotrak Ltd	45	–	–	–
Current liabilities				
Trade payables	82	199	42	–
Accruals	982	755	160	149
Deferred income	187	1,706	–	–
Restructuring provision	595	–	–	–
Total current liabilities	1,846	2,660	202	149

Amounts owed to subsidiary undertakings are payable on demand but are expected to be paid after more than one year. No interest is charged on this payable and no security given.

18. Issued share capital

Group and Company

	Number	31 March 2011 £000	Number	31 March 2010 £000
Authorised				
Ordinary shares of 10 pence each	250,000,000	25,000	250,000,000	25,000
Allotted and fully paid				
Ordinary shares of 10 pence each	162,538,846	16,254	161,734,912	16,173

Group and Company

	Number	31 March 2011 £000	Number	31 March 2010 £000
Ordinary shares of 10 pence each				
At beginning of year	161,734,912	16,173	160,691,263	16,069
Shares issued as free/partnership/matching shares	787,494	79	–	–
Shares issued as a result of LTPSP vesting	16,440	2	1,043,649	104
At end of year	162,538,846	16,254	161,734,912	16,173

Details of ordinary shares under option under the Company's employee share schemes are given on page 76.

19. Directors' remuneration

	Group 2011 £000	Group 2010 £000
Directors' emoluments	1,058	906
Company contributions to pension schemes	85	87
Total	1,143	993

The Company does not consider it has any key management personnel other than the executive and non-executive directors.

More detailed information concerning directors' remuneration, shareholdings, options and pension benefits is shown in the Directors' Remuneration Report on pages 40 to 47.

Notes to the Financial Statements continued

20. Employee costs and numbers

The aggregated payroll costs (including directors' emoluments) were as follows:

	Note	Group 2011 £000	Group 2010 £000
Salaries and bonuses		2,963	3,155
Social security costs		352	357
Pension costs		250	246
Share-based payment charge	23	429	315
Total		3,994	4,073

The average monthly number of persons employed (including executive and non-executive directors) by the Group during the year is analysed by category below.

	Group 2011 Number	Group 2010 Number
Directors – company	7	6
– subsidiaries	3	3
Engineers	29	34
Administrative	14	17
Total	53	60

21. Defined contribution pension scheme

The Group operates a defined contribution money purchase scheme for its employees which was set up on 1 January 1988. The assets of the scheme are held separately from the Group in an independently administered fund with Standard Life as trustee. The scheme has been contracted into the State Second Pension (previously the State Earnings Related Pension Scheme) since 6 April 1997. Pension charges are charged to the Income Statement in respect of the period to which they relate. The charge to the Income Statement was £250k (2010: £246k). The scheme is available to all employees and currently has approximately 46 active members. Retirement age is between 60 and 75 years. The minimum contribution rates as a percentage of basic earnings calculated at 6 June each year are 7.5% by Torotrak and 3.5% by the relevant employee. Part of the pension may be received as a tax-free cash sum. The scheme is not the subject of any investigation by the Pensions Regulator or subject to any litigation or claim before the Pensions Ombudsman and complies with the requirements of the Pensions Act 2006. There were no payments due at the year end (2010: £nil).

Executive directors, directors of subsidiaries and certain employees are entitled to have pension contributions payable by the Group paid into a personal pension scheme. Of the total charge to the Income Statement of £250k (2010: £246k) the charge in respect of personal schemes was £59k (2010: £85k).

22. Operating leases

The total aggregate minimum lease payments:

	Land and buildings		Office equipment	
	31 March 2011 £000	31 March 2010 £000	31 March 2011 £000	31 March 2010 £000
Not later than one year	280	280	21	21
Later than one year but not later than five years	1,014	1,119	11	31
Later than five years	–	175	–	–
Total	1,294	1,574	32	52

Total amounts receivable under non-cancellable operating lease rentals that derive from a sub-lease are as follows:

	Land and buildings	
	31 March 2011 £000	31 March 2010 £000
Not later than one year	105	61
Later than one year but not later than five years	376	–
Total	481	61

23. Employee benefits

At 31 March 2011 the total number of shares over which non-cancelled options have been granted to directors and employees under all share schemes was 12,077,305 (2010: 10,696,650) representing 7.43% (2010: 6.61%) of the issued share capital of the Company.

The Sharesave Scheme

The HMRC approved savings-related share option scheme ("the Sharesave Scheme") is open to all employees, including executive directors, who enter into an approved savings contract for a period of three years. HMRC rules limit the maximum amount that may be saved to £250 per month. Options are granted when the savings contract is commenced to acquire the number of shares that the total savings will buy when the savings contract expires. Under current regulations tax-free bonuses are paid at the end of the savings contract and, if the savings contract continues for another two years, an additional tax-free bonus is paid but no shares may be purchased.

A new share save scheme was approved in July 2008 and the first issue was in June 2009.

Grant date	Number of employees	Number of shares	Exercise date	Exercise price
June 2009	38	1,255,886	July 2012	£0.224

Notes to the Financial Statements continued

23. Employee benefits continued

Share option schemes

At 31 March 2011, employees held approved and unapproved options to acquire 1,817,290 shares under the share option schemes, (2010: 2,079,059) subject to performance conditions, representing 1.12% (2010: 1.29%) of the issued share capital as follows:

Grant date	Number of employees	At 1 April 2010 Number	Granted during the year Number	Exercised during the year Number	Lapsed or cancelled during the year Number	At 31 March 2011 Number	Exercise price £	Expiry date
Unapproved Scheme								
Jul 2000		13,084	–	–	13,084	–	–	–
Dec 2000		11,777	–	–	11,777	–	–	–
Jul 2001	1	3,930	–	–	–	3,930	1.69	Jul 2011
Jan 2003	1	393,659	–	–	–	393,659	0.205	Jan 2013
Mar 2003	1	121,452	–	–	–	121,452	0.155	Mar 2013
Jun 2004		175,014	–	–	175,014	–	–	–
Jun 2005	1	207,082	–	–	–	207,082	0.625	Jun 2015
Jul 2008	6	171,252	–	–	–	171,252	0.205	Jul 2018
Total unapproved options		1,097,250	–	–	199,875	897,375		

Grant date	Number of employees	At 1 April 2010 Number	Granted during the year Number	Exercised during the year Number	Lapsed or cancelled during the year Number	At 31 March 2011 Number	Exercise price £	Expiry date
Approved Scheme								
Jul 2000		17,668	–	–	17,668	–	–	–
Dec 2000		3,726	–	–	3,726	–	–	–
Jul 2001	2	16,574	–	–	–	16,574	1.69	Jul 2011
Jan 2003	1	146,341	–	–	–	146,341	0.205	Jan 2013
Mar 2003	1	193,548	–	–	–	193,548	0.155	Mar 2013
Jun 2003	2	21,000	–	–	–	21,000	0.27	Jun 2013
Jun 2004	1	12,000	–	–	–	12,000	0.635	Jun 2014
Jul 2008	41	570,952	–	–	40,500	530,452	0.205	Jul 2018
Total approved options		981,809	–	–	61,894	919,915		

23. Employee benefits continued

Long term performance share plan (LTPSP)

The Company has established a long term incentive plan for the benefit of UK and non-UK resident directors and employees. Awards were made during the year totalling 3,117,923 shares, subject to performance conditions (2010: 2,344,027), representing 1.92% (2010: 1.45%) of the allotted share capital of the Company at 31 March 2011.

Grant date	Number of employees	At 1 April 2010 Number	Granted during the year Number	Exercised during the year Number	Cancelled during the year Number	At 31 March 2011 Number	Exercise price
Sep 2006		61,825	–	61,825	–	–	(i)
Sep 2007	12	2,517,361	–	16,440	1,258,681	1,242,240	(i)
Aug 2008	6	2,299,939	–	–	–	2,299,939	(i)
Sep 2009	5	2,344,027	–	–	–	2,344,027	(i)
Dec 2010	12	–	3,117,923	–	–	3,117,923	(i)
Total LTPSP options		7,223,152	3,117,923	78,265	1,258,681	9,004,129	

Note (i) Each award over shares under the LTPSP is satisfied by the exercise of an option for the sum of £1.00. Dick Ely, James Batchelor and Jeremy Deering each received one award over shares in the year.

Share incentive plan

Awards made under the plan enjoy tax-favoured treatment and encourage long term employee share ownership.

At 31 March 2011, 50,533 shares were held in trust on behalf of participating employees (2010: 87,745) in the Company, with a market value of £20k (2010: £20k).

The Torotrak Employee Share Trust (EST)

The Torotrak Employee Share Trust (EST) was a discretionary trust established for the benefit of past, present and future employees of the Group and their immediate families. The trustee was Bacon & Woodrow Trust Company (CI) Limited. The trustee can distribute shares at its discretion, on the recommendation of the Board, either directly to a beneficiary or through the Company's share schemes. All administrative costs associated with the EST are met by the Company.

On 19 August 2007 the Company placed 1,151,180 shares into the EST. The market price of the shares was 30 pence each and the market value of the shares was £345k.

At 31 March 2010, the EST owned 99,490 shares in the Company. During the year 61,825 were transferred to an employee to satisfy his LTPSP award. The balance was sold and the proceeds transferred.

This EST has been dissolved in the year.

Notes to the Financial Statements continued

23. Employee benefits continued

The Torotrak Employee Benefits Trust (EBT)

During the year a new Employee Benefit Trust was established. The trustee is Torotrak (Holdings) Limited. The trust was established in order to provide free, partnership and matching shares for employees.

	Number of employees	Shares awarded	Shares issued	At 31 March 2011
Free shares	46	224,352	–	224,352
Partnership/Matching	32	563,142	–	563,142
Total		787,494	–	787,494

Free shares were offered to all employees at a rate of 3% of salary at a share price of 22.30p. There is a holding period of three years. There are no other performance conditions.

Staff could purchase partnership shares up to the legal maximum of £1,500 at a price of 22.30p. For each partnership share purchased, the company awarded two matching shares. Under the partnership agreement, there is a holding period of three years. There are no other performance conditions.

Fair value of share options granted

The fair value of services received in return for share options granted is measured by reference to the fair value of options granted. The estimate of the fair value of the services received is based upon the Black Scholes model. The contractual life of the option is used as an input into this model.

Scheme	Fair value at measurement date £	Share price £	Exercise price £	Expected volatility %	Option life Years	Expected dividend	Risk free rate %
SAYE scheme June 2009	0.113	0.224	0.224	75.00	3	–	2.30
Approved share option Jun 2003	0.22	0.27	0.27	118.26	5	–	4.25
Approved share option Jun 2004	0.53	0.635	0.635	118.26	5	–	4.25
Approved share option Aug 2008	0.084	0.205	0.205	55.00	3	–	4.75
Unapproved share option Jan 2003	0.17	0.21	0.21	118.26	5	–	4.25
Unapproved share option Mar 2003	0.13	0.155	0.155	118.26	5	–	4.25
Unapproved share option Jun 2004	0.53	0.635	0.635	118.26	5	–	4.25
Unapproved share option Jun 2005	0.53	0.63	0.63	124.16	5	–	4.25
Unapproved share option Aug 2008	0.084	0.205	0.205	55.00	3	–	4.75
LTPSP share options Sep 2006	0.16	0.33	(i)	67.00	3	–	5.25
LTPSP share options Dec 2006	0.16	0.49	(i)	67.00	3	–	5.25
LTPSP share options Sep 2007	0.28	0.3115	(i)	55.00	3	–	5.70
LTPSP share options Aug 2008	0.1925	0.1925	(i)	55.00	3	–	4.75
LTPSP share options Sep 2009	0.255	0.255	(i)	65.00	3	–	2.50
LTPSP share options Dec 2010	0.225	0.225	(i)	65.00	3	–	1.57

Note (i) Each award over shares under the LTPSP is satisfied by the exercise of an option for the sum of £1.00.

The forecast future volatility is based upon five-year historical volatility. The volatility of the Enterprise Management Incentive (EMI) schemes is based on a techMARK average.

23. Employee benefits continued

The costs charged to the Income Statement relating to share options and awards over shares granted were as follows:

	31 March 2011 £000	31 March 2010 £000
Share options granted in financial year ending 31 March 2005	–	6
Share options granted in financial year ending 31 March 2006	–	22
Share options granted in financial year ending 31 March 2007	–	31
Share options granted in financial year ending 31 March 2008	189	125
Share options granted in financial year ending 31 March 2009	120	68
Share options granted in financial year ending 31 March 2010	103	63
Share options granted in financial year ending 31 March 2011	17	–
Total charged to the Income Statement	429	315

24. Subsidiary undertakings and Joint Ventures

The Company had the following subsidiary undertakings and Joint Ventures as at 31 March 2011:

The investments in Torotrak Group Ltd and Torotrak (Holdings) Ltd are held by the Company; the investments in all other subsidiaries are held through Torotrak (Holdings) Ltd; and the investment in the Joint Venture Infinitrak is held by Torotrak Inc.

	Country of incorporation	Class of capital	Principal activity	Ownership	
				2011	2010
Torotrak Group Ltd	UK	Ordinary	Dormant	100%	100%
Torotrak (Holdings) Ltd	UK	Ordinary	Intermediate holding company and licensing administration	100%	100%
Torotrak (Development) Ltd	UK	Ordinary	Commercialisation and research and development in relation to variable drive technology	100%	100%
Rotrak Ltd	UK	Ordinary	Development of supercharger drives	50%	–

Torotrak Inc (previously 100% owned) and Infinitrak LLC (previously 50% owned) have been dissolved during the year as part of the closure of the Infinitrak joint venture.

Notes to the Financial Statements continued

25. Related party transactions

The Company's transactions with and balances due (to) / from wholly owned subsidiaries and other related parties are analysed below.

Related party	Balance due (to)/from at 1 April 2010 £000	Working capital loans £000	Expenses charged by Torotrak plc £000	Balance due (to)/from at 31 March 2011 £000
Torotrak Group Ltd	(11,442)	–	–	(11,442)
Torotrak (Holdings) Ltd	2,844	–	–	2,844
Torotrak (Development) Ltd	59,566	4,563	(288)	63,841
Torotrak Inc	248	(248)	–	–
Rotrak Limited	–	90	–	90
Rotrex AS	–	147	–	147
Infinitrak LLC	915	(946)	31	–

The current and prior year emoluments of the executive and non-executive directors, who for these purposes may be viewed as related parties, are shown in note 19 and in the Directors' Remuneration Report on pages 40 to 47. There are no amounts due (to)/from these personnel at the start or end of the year. The Company does not consider it has any key management personnel other than the executive and non-executive directors.

Financial Record

For the years ended 31 March

	2011 £000	2010 £000	2009 £000	2008 £000	2007 £000
Revenue	5,066	7,641	4,617	3,685	2,691
(Loss)/profit on ordinary activities before taxation	(3,285)	197	(1,987)	(2,397)	(3,227)
(Loss)/profit on ordinary activities after taxation for the financial year	(3,097)	387	(1,788)	(2,130)	(2,899)
Basic (loss)/earnings per share	(1.91p)	0.24p	(1.22p)	(1.57p)	(2.43p)
Diluted (loss)/earnings per share	(1.91p)	0.23p	(1.22p)	(1.57p)	(2.43p)
Cash and cash equivalents at year end	8,271	13,092	14,975	11,549	4,307
Net cash (outflow)/inflow from operating activities	(4,754)	(1,121)	1,011	526	(3,515)

Notice of Annual General Meeting 2011

Torotrak plc (the “Company”)

Notice is hereby given that the 2011 Annual General Meeting of the Company will be held at the Best Western Premier Leyland Hotel, Leyland Way, Leyland, PR25 4JX on Friday 29 July 2011 at 10.00am for the following purposes:

Resolutions 1 to 8 are each proposed as an ordinary resolution.

Resolution 1 To receive the Financial Statements and the reports of the Directors and Auditors for the year ended 31 March 2011.

Resolution 2 To approve the Remuneration Policy set out in the Remuneration Report.

Resolution 3 To approve the Remuneration Report for the year ended 31 March 2011.

Resolution 4 To re-appoint John Weston, who was appointed as a Director during the year and who, being eligible, offers himself for re-election as a Director in accordance with the Company's Articles of Association.

Resolution 5 To re-appoint Dick Elsy, who retires as a Director in accordance with the Company's Articles of Association and who, being eligible, offers himself for re-election as a Director.

Resolution 6 To re-appoint PricewaterhouseCoopers LLP as auditors of the Company.

Resolution 7 To authorise the Directors to agree PricewaterhouseCoopers LLP's remuneration.

Resolution 8

That the Directors be and they are hereby generally and unconditionally authorised to exercise powers of the Company pursuant to section 551 of the Companies Act 2006 (the “Act”) to allot, grant options over, offer or otherwise deal with or dispose of shares in the Company (such shares and rights together being referred to as “relevant securities”) up to an amount equal to 33% of the aggregate nominal value of the Company's ordinary shares in issue at 24 June 2011, being £5,407,960.60, provided that:

- a) this authority shall expire on the earlier of the close of the next Annual General Meeting of the Company after passing of this resolution or 15 months from the date of the resolution unless previously renewed, varied or revoked by the Company in general meeting save that before such expiry the Company may make any offer or agreement which would or might require relevant securities of the Company to be allotted after such expiry and the Directors may allot relevant securities in pursuance of such offer or agreement as if the authority conferred by this resolution had not expired; and
- b) the authority conferred by this resolution shall be in substitution for all existing powers conferred on the Directors pursuant to section 80 of the Companies Act 1985 and section 551 of the Act.

Resolutions 9 to 12 are each proposed as a special resolution:

Resolution 9

That:

- a) the grant of an option over 290,155 ordinary shares in the capital of the Company at an exercise price of 48.25 pence per share granted to John Weston on the terms of an agreement between the Company and John Weston (the “Option”) produced to the meeting and initialled by the Chairman for the purposes of identification be and hereby is approved and ratified;
- b) the Directors be and they are hereby generally and unconditionally authorised to exercise powers of the Company pursuant to section 551 of the Act to allot shares in the Company to satisfy the exercise of the Option; and
- c) the Directors be and they are hereby empowered to allot equity securities (within the meaning of section 560 of the Act) for cash in order to satisfy the Option as if section 561(1) of the Act did not apply to any such allotment;

provided that the authorities conferred by sub-paragraphs (b) and (c) shall expire on the earlier of the close of the next Annual General Meeting of the Company after passing of this resolution or 15 months from the date of the resolution unless previously renewed, varied or revoked by the Company in general meeting save that before such expiry the Company may make any offer or agreement which would or might require relevant securities of the Company to be allotted after such expiry and the Directors may allot relevant securities in pursuance of such offer or agreement as if the authorities conferred by this resolution had not expired.

Resolution 10

That, subject to the passing of Resolution 8, the Directors be and they are hereby empowered to allot equity securities (within the meaning of section 560 of the Act) for cash pursuant to the authority conferred by Resolution 8 as if section 561(1) of the Act did not apply to any such allotment provided that this power shall be limited:

- a) to the allotment of equity securities in connection with an issue in favour of holders of ordinary shares in the capital of the Company in proportion as close as possible to existing holdings of ordinary shares in the Company, but subject to such exclusions or other arrangements as the Directors may deem necessary or desirable to deal with fractional entitlement or legal or practical problems under the laws of, or the requirements of any recognised regulatory body or any stock exchange in, any territory; and
- b) to the allotment (otherwise than pursuant to sub-paragraph (a) above) of equity securities up to an amount equal to 5% of the aggregate nominal value of the ordinary shares in issue at 24 June 2011, being £819,387.90. and this authority shall expire on the earlier of the close of the next Annual General Meeting of the Company after passing of this resolution or 15 months from the date of this resolution save that the Company may before such expiry make an offer or agreement which would or might require equity securities to be allotted after such expiry and the Directors may allot equity securities in pursuance of such an offer or agreement as if the power conferred hereby had not expired.

Resolution 11

That, in accordance with article 52(4) of the Articles of Association, a general authority is hereby unconditionally given for the purposes of section 701 of the Act for market purchases (as defined in section 693(4) of the Act) by the Company of any of its ordinary shares subject to the following restrictions but otherwise unconditionally:

- a) the maximum aggregate number of ordinary shares to be so acquired shall not exceed 16,387,759 ordinary shares of 10 pence each representing 10% of the ordinary shares in issue at 24 June 2011; and
- b) ordinary shares may only be purchased at a price per share (exclusive of expenses) no higher than 5% above the average of the middle market quotations of the ordinary shares in the capital of the Company, as derived from the London Stock Exchange Daily Official List, for the five business days preceding the date of purchase but the minimum price that may be paid for such shares shall be the nominal value of 10 pence per share (exclusive of expenses);

such authority to expire at the earlier of the conclusion of the next Annual General Meeting of the Company after the passing of this resolution or 15 months from the date of this resolution, save that the Company may before such expiry enter into contracts for such purposes which would or might be completed or executed wholly or partly after such expiry and the Company may purchase ordinary shares in pursuance of such a contract as if the authority conferred hereby had not expired.

Resolution 12

That:

- a) the Company's share capital be reduced by the cancellation of £53,646,825 standing to the credit of the Company's share premium account and that the increased distributable reserves created by such cancellation may be used by the Company to pay dividends, to repurchase its own shares and/or to absorb future realised losses or changes of accounting practice that might otherwise prevent the future payment of dividends; and
- b) the Directors be and are hereby authorised to take all necessary steps to effect such cancellation, provided that any court order approving such reduction shall be registered with the Registrar of Companies by no later than the earlier of the date of the next General Meeting of the Company after the passing of this resolution or 15 months from the date of this resolution.

Recommendation and further information

The Directors of the Company consider that the resolutions to be proposed at the Annual General Meeting are in the best interests of the Company and will promote the success of the Company for the benefit of its shareholders as a whole. The Directors recommend that you vote in favour of the resolutions set out above, as the Directors intend to do in respect of their own shareholdings.

Further information on each of the resolutions, and on the arrangements and conduct for the meeting, is provided in the notes that follow this Notice.

Notice of Annual General Meeting 2011 continued

Important note

If you are in any doubt as to any aspect of the proposals referred to above or as to the action you should take, you should seek your own advice from a stockbroker, accountant, solicitor or other professional adviser.

If you have sold or otherwise transferred all of your shares, please forward this document together with the accompanying documents as soon as possible to the transferee or to the person who arranged the sale or transfer so they can pass these documents on to the current shareholder. If you have sold or otherwise transferred some, but not all, of your shares you should retain this document and the accompanying documents.

By order of the Board:

Jeremy Deering	1 Aston Way
Company Secretary	Leyland, Lancashire
27 June 2011	PR26 7UX

Notes relating to the Notice of the 2011 Torotrak Annual General Meeting

1. Your entitlement to vote, proxy voting and conduct of meeting

- a) Only registered holders of fully paid shares or their duly appointed representatives are entitled to attend and vote at the Annual General Meeting. On a vote by show of hands every member who is present has one vote and every proxy present who has been duly appointed by a registered holder entitled to vote has one vote. On a poll vote every member who is present in person or by proxy has one vote for every ordinary share for which he or she is the holder. Those shareholders entered on the register of members of the Company ('the Register') as at 10am on 27 July 2011 shall be entitled to attend and vote at the meeting in respect of the number of shares registered in their name at the time. Changes to entries on the Register after that time shall be disregarded in determining the rights of any person to attend and vote at the meeting.

If the meeting is adjourned to a time not more than 48 hours after the specified time applicable to the original meeting then 10am on 27 July 2011 will also apply for the purpose of determining the entitlement of shareholders to attend and vote (and for determining the number of votes they may cast) at the adjourned meeting. If, however, the meeting is adjourned for a longer period then, to be so entitled, shareholders must be entered on the Register at the time which is 48 hours before the time fixed for the adjourned meeting, or if the Company gives the notice of the adjourned meeting, at the time specified in that notice.

Any corporation which is a member can appoint one or more corporate representatives who may exercise on its behalf all of its powers as a member provided that they do not do so in relation to the same shares.

Any member entitled to attend and vote at the Annual General Meeting may appoint one or more proxies to attend and to vote instead of the member provided that each proxy is appointed to exercise the rights attached to a different share or shares held by that shareholder. A proxy need not be a member of the Company. To be effective, the instrument appointing a proxy (and the power of attorney or other authority (if any) under which it is signed or a notarially certified or office copy thereof) must be deposited at the Company's registrars, Capita Registrars, PXS, 34 Beckenham Road, Beckenham, Kent, BR3 4TU, not less than 48 hours before the time of holding the meeting or adjourned meeting. Should you wish to appoint more than one proxy then please photocopy the Form of Proxy.

Shareholders may also lodge their proxy online at www.capitashareportal.com. Completion and return of one or more Forms of Proxy will not preclude shareholders from attending the Annual General Meeting and voting in person if they wish to do so.

In order to revoke a proxy appointment, a member must sign and date a notice clearly stating his intention to revoke his proxy appointment and deposit it at the offices of the Company's registrars, Capita Registrars, PXS, 34 Beckenham Road, Beckenham, Kent, BR3 4TU, not less than 48 hours before the time of holding the meeting or adjourned meeting

- b) The following principles shall apply in relation to the appointment of multiple proxies:
- (i) If the Company receives multiple proxy instructions from the sole holder of shares then the instructions received last (i.e. closest to the date of the Annual General Meeting) will be used.
 - (ii) If conflicting proxies are received at the same time in respect of (or deemed to be in respect of) an entire holding then none of them shall be treated as valid.
 - (iii) Where the aggregate number of shares in respect of which proxies are appointed exceeds a member's entire holding and it is not possible to determine the order in which they were received (or they were all received at the same time) then the number of votes attributed to each proxy will be reduced pro-rata.
 - (iv) Where the application of paragraph (iii) above gives rise to fractions of shares, such fractions will be rounded down.
 - (v) In the case of joint holders of shares, where more than one of the joint holders purports to appoint a proxy, only the appointment submitted by the most senior shareholder will be accepted and, for this purpose, seniority will be determined by the order in which the names stand in the Register in respect of such shares.
- c) If a member appoints a proxy or proxies and then decides to attend the Annual General Meeting in person and vote, then the vote in person will override the proxy vote(s).
- d) In accordance with section 325 of the Act, the right to appoint proxies does not apply to persons nominated to receive information rights under section 146 of the Act. Persons nominated to receive information rights under section 146 of the Act who have been sent a copy of this Notice of Meeting may have a right under an agreement with the registered member by whom they were nominated to be appointed, or to have someone else appointed, as a proxy for this meeting. If they have no

Notice of Annual General Meeting 2011 continued

such right, or do not wish to exercise it, they may have a right under such an agreement to give instructions to the member as to the exercise of voting rights. Nominated persons should contact the registered member by whom they were nominated in respect of these arrangements.

- e) Under section 338A of the Act, shareholders may request the Company to include in the business to be dealt with at annual general meetings any matter (other than a proposed resolution) which may be properly included in the business, provided that it is not defamatory, vexatious or frivolous. The Company will include such matter if sufficient requests have been received in accordance with section 338A(3) of the Act and the request is submitted in the manner detailed in section 338A of the Act.

2. Statements on Company website

Members should note that it is possible that, pursuant to requests made by shareholders of the Company under section 527 of the Act, the Company may be required to publish on a website a statement setting out any matter relating to the audit of the Company's accounts (including the auditors' report and the conduct of the audit) that are to be laid before the Annual General Meeting. The Company may not require the members requesting any such website publication to pay its expenses in complying with sections 527 or 528 of the Act. Where the Company is required to place a statement on a website under section 527 of the Act, it must forward the statement to the Company's auditor not later than the time when it makes the statement available on the website. The business which may be dealt with at the Annual General Meeting includes the statement that the Company has been required under section 527 of the Act to publish on a website.

3. CREST members

CREST members who wish to appoint a proxy or proxies through the CREST electronic proxy appointment service may do so for the Annual General Meeting to be held on 29 July 2011 and any adjournment(s) thereof by using the procedures described in the CREST Manual. 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.

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's specifications and must obtain 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 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 the latest time(s) for receipt of proxy appointments specified in the notice of meeting. For this purpose, the time of receipt will be taken to be the time (as determined by the time stamp applied to the message by the CREST Application 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.

CREST members and, where applicable, their CREST sponsors or voting service providers should note that Euroclear UK & Ireland Limited 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 means of 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.

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.

4. Voting rights

As at close of business on 24 June 2011, being the last business day prior to publication of this Notice, the Company's issued share capital comprised 163,877,595 ordinary shares carrying one vote each. Therefore, the total number of voting rights in the Company as at 24 June 2011 was 163,877,595.

5. Documents available for inspection

There will be available for inspection:

- a) a copy of the share option agreement between the Company and John Weston at the registered office of the Company and at the offices of Squire, Sanders & Dempsey (UK) LLP, 7 Devonshire Square, Cutlers Gardens, London EC2M 4YH during normal business hours on any weekday, Saturdays and Sundays excepted, from the date of this Notice until the close of the meeting, and at the place of the meeting from 15 minutes prior to the opening of the meeting until the close of the meeting; and
- b) copies of all Directors' service contracts or letters of appointment and a copy of Company's current Articles of Association at the registered office of the Company during normal business hours of any weekday, Saturdays and Sundays excepted, from the date of this notice until the conclusion of the Annual General Meeting and at the place of the meeting from 15 minutes prior to the opening of the meeting until the close of the meeting.

6. Directors

It is intended that the chairmen of the Audit, Remuneration and Nomination Committees will be available to answer questions at the meeting, as will all other Board Directors.

Biographical details of the Directors proposed for re-election in accordance with Resolutions 4 and 5 are set out in the Annual Report on pages 6 and 30.

7. Right to ask questions

Under section 319A of the Act, a member attending the meeting has the right to ask questions in relation to the business of the meeting. The Company must cause to be answered any such question relating to the business being dealt with at the meeting but no such answer need be given if (a) to do so would interfere unduly with the preparation for the meeting or involve the disclosure of confidential information, (b) the answer has already been given on a website in the form of an answer to a question, or (c) it is undesirable in the interests of the Company or the good order of the meeting that the question be answered.

8. Copy of notice on website

A copy of this notice, and other information required by section 311A of the Act, can be found at www.torotrak.com

9. Results of voting

The results of voting at the AGM will be announced via a Regulatory Information Service and will appear at www.torotrak.com within 14 days of the date of the AGM.

Notice of Annual General Meeting 2011 continued

Explanatory notes to the Resolutions

Approval of the Report and Accounts (Resolution 1)

This resolution deals with the receipt and adoption of the Financial Statements of the Company and the Directors' Report and Auditors' Report for the year ended 31 March 2011 (the "Annual Report"), which the Directors are required to lay before the shareholders in general meeting.

Approval of the Directors' Remuneration Policy and Remuneration Report (Resolutions 2 and 3)

Shareholders are invited to approve the Directors' Remuneration Policy and Remuneration Report for the year ended 31 March 2011, as set out on pages 40 to 47 of the Annual Report.

Re-election of Directors (Resolutions 4 and 5)

The Board appointed John Weston to act as a Director and as Non-executive Chairman of the Company with effect from 1 June 2011. Having been appointed during the year, under article 102 of the Articles of Association of the Company John Weston is required to stand for re-appointment at the Annual General Meeting. Having reviewed the recommendations of the Nominations Committee, the Board considers that he will make a valuable contribution to Board deliberations and to the development of the Company and has sufficient time to devote to the affairs of the Company.

In accordance with article 96 of the Company's Articles of Association, which requires Directors to retire by rotation and offer themselves for re-appointment at least once every three years, Dick Elsy is retiring as a Director by rotation and, being eligible, is offering himself for re-election to the Board. Having reviewed the recommendations of the Nominations Committee, the Board is satisfied that Dick Elsy continues to show the necessary commitment and continues to be an effective member of the Board due to his skills, expertise and business acumen.

Biographical details of John Weston and Dick Elsy can be found on pages 6 and 30 respectively of the Annual Report.

Re-appointment of the auditors and agreement of their remuneration (Resolution 6 and 7)

The auditors of a company must be re-appointed at each general meeting at which the Company's accounts are presented. Resolution 6 deals with the re-appointment of PricewaterhouseCoopers LLP as the auditors of the Company until the conclusion of the next Annual General Meeting. In line with current best practice, Resolution 7 is a separate resolution which authorises the Directors to fix the auditors' remuneration.

Directors' authority to allot shares (Resolution 8)

This resolution, proposed as an ordinary resolution, renews the Directors' authority to allot un-issued shares in the Company in accordance with section 551 of the Act. The resolution authorises the Directors to allot shares up to an aggregate nominal amount of £5,407,960.60 (being approximately 33% of the issued ordinary share capital of the Company at 24 June 2011). The authority will expire at the conclusion of the next Annual General Meeting of the Company or on the day 15 months from the date of the passing of this resolution (whichever is the earlier). The Directors have no immediate intention to exercise this authority other than in connection with the Group's employee share schemes.

Option agreement for John Weston (Resolution 9)

As part of the process of appointing John Weston as non-executive chairman of the Company, it was agreed that Mr Weston would be granted an option over the Company's shares. Mr Weston's option (the "Option") was granted by means of a "stand-alone" option agreement (the "Option Agreement") and approval and ratification of the Company entering into the Option Agreement is being sought from shareholders. The main terms of the Option Agreement are as follows:

The Option is granted over 290,155 ordinary shares in the capital of the Company at an exercise price of 48.25 pence per share and will lapse if the Option Agreement is not approved and ratified by shareholders at the Annual General Meeting. As a pre-condition for the grant of the Option, Mr Weston acquired beneficially on 26 May 2011 300,000 ordinary shares in the Company, which he is required to retain until the Option is exercised, failing which it will lapse. Benefits under the Option are not pensionable.

The Option will become exercisable as to 50% of the shares comprised in it provided the Company's share price increases by at least 33%, ie a share price of at least 64.17 pence. (the "Lower Target") over any period of at least one month and will become exercisable

as to the other 50% of the shares comprised in it provided the Company's share price increases by at least 67%, ie a share price of at least 80.58 pence, (the "Higher Target") over any period of at least one month. The Option is not capable of exercise after the tenth anniversary of the date on which it was granted.

If there is a change of control of Company as a result of a general offer, the Option may be exercised within six months of the change of control, if and to the extent that the offer price is greater than the Lower or the Higher Target. If any person becomes entitled to serve notice to acquire shares in the Company under sections 979 to 989 of the Act the Option may be exercised within a period of six weeks of the date such entitlement arose, if and to the extent that the acquisition price is greater than the Lower or the Higher Target. In the event of the reconstruction or amalgamation of the Company pursuant to section 899 of the Act, the Option may be exercised within six months of the court sanctioning the reconstruction or amalgamation, if and to the extent that the consideration for such reconstruction or amalgamation is greater than the Lower or the Higher Target. If it is proposed that any of the events described above is to occur, the Remuneration Committee of the Board may give Mr Weston advance notice of the proposal and the Option may then be exercised subject to and conditionally upon the occurrence of the relevant event.

In circumstances where there is an event as described above but no change of control, Mr Weston may be required to release the Option in exchange for an option of equivalent value over shares in the acquiring company or another eligible company. In the event of the voluntary or compulsory winding-up of the Company, the Option may be exercised conditionally at any time up to the commencement of the winding up. In the event of a proposed demerger of the Company or any subsidiary, the Remuneration Committee of the Board may allow exercise of the Option within a specified period (not exceeding 30 days), provided that an independent adviser has first confirmed to the Remuneration Committee of the Board that Mr Weston's rights may otherwise be substantially prejudiced. If any of the above events occur within three years of the date of grant of the Option, the number of shares over which the Option may be exercised will be reduced on a pro-rata basis by reference to the proportion of such three-year period that has elapsed between the grant date and the relevant event.

If Mr Weston dies or ceases to be a Director of the Company due to serious injury, long-term ill-health or permanent disability, the Option may be exercised within 6 months (12 in the case of death) of the date of cessation of his directorship. If Mr Weston's directorship ceases within a period of three years from the date of grant of the Option, the number of shares over which the Option can be exercised will be reduced on a pro-rata basis by reference to the proportion of that three-year period that elapsed before the cessation of Mr Weston's directorship. Where Mr Weston's directorship ceases for any other reason, the Option will lapse unless and to the extent that the Remuneration Committee of the Board permits him to exercise it.

Mr Weston is obliged to put the Company in funds to satisfy any liability to tax or related liabilities arising in connection with the Option for which the Company has to account.

If a variation in the capital of the Company occurs by reason of a capitalisation or rights issue (including a variation having an effect similar to a rights issue) or a sub-division, consolidation or reduction or otherwise or in the event of the payment by the Company of an extraordinary dividend, the Remuneration Committee of the Board may make appropriate adjustments to the exercise price and the number of shares comprised in the Option provided that (except in the case of a capitalisation issue) the Remuneration Committee has been independently advised in writing that such adjustments are fair and reasonable.

As Mr Weston is not an employee of the Company, it is necessary to obtain specific authority to issue shares to satisfy the exercise of the Option and to issue those shares without having regard to the statutory pre-emption rights of shareholders. Any shares issued to satisfy the exercise of the Option will not be counted for the purposes of the limits on the number of newly-issued shares that may be issued or comprised in awards or options granted under any of the Company's employee share schemes. This resolution is being proposed as a special resolution.

Disapplication of pre-emption rights (Resolution 10)

Under section 561(1) of the Act, equity securities in the Company may not be allotted for cash (otherwise than in respect of an employee share scheme) without first being offered pro-rata to existing shareholders, unless the prior approval of the shareholders is given in a general meeting. The Directors consider that it is in the best interests of the Company to renew the relevant authority given at the Annual General Meeting in 2010. Accordingly, a special resolution to this effect is proposed as Resolution 10 in the Notice of the Annual General Meeting. The proposed authority will expire at the conclusion of the next Annual General Meeting of the Company or on the day 15 months from the date of the passing of this resolution (whichever is the earlier) and permits the Directors during this period to issue equity securities up to an aggregate nominal amount of £819,387.90 (representing approximately 5% of the issued share capital at 24 June 2011) without first offering them to existing shareholders.

Notice of Annual General Meeting 2011 continued

In accordance with the Pre-emption Group's Statement of Principles, the Board confirms its intention that no more than 7.5% of the issued share capital (excluding treasury shares) will be issued for cash on a non pre-emptive basis within any rolling 3-year period.

The pricing at which the equity would be raised would be greater or equal to the middle of the best bid and offer prices for the Company's shares immediately prior to the announcement of an issue or proposed issue.

Power to repurchase own shares (Resolution 11)

Under the terms of section 701 of the Act and article 52(4) of its Articles of Association, the Company has power to purchase its own shares provided that this power has first been sanctioned by shareholders. Resolution 11, proposed as a special resolution, authorises the Company to make purchases of up to 16,387,759 ordinary shares (representing approximately 10% of the issued ordinary share capital of the Company as at the date of this notice) at a minimum price of 10 pence and a maximum price (exclusive of expenses) of not more than 5% above the average of the middle market quotations for the ordinary shares of the Company as derived from the London Stock Exchange Daily Official List for the five business days prior to the purchase.

The authority will expire at the conclusion of the next Annual General Meeting of the Company or on the day 15 months from the date of the passing of this resolution (whichever is the earlier). As at 24 June 2011 options to subscribe for 9,334,507 ordinary shares in the Company pursuant to the Share Option Schemes were outstanding. If exercised as at the date of this document, those options would represent 5.7% of the issued share capital of the Company. If the full authority to buy back shares being sought is used, the same options would represent 6.33% of the issued share capital of the Company.

The fact that the Directors are seeking this authority should not be taken as an indication that the Company will purchase its own shares at any particular price or indeed at all and the Directors would only consider making purchases if they believed that such purchases would be in the best interests of shareholders generally, having regard to the effect on earnings per share. The Directors have no immediate intention to exercise the proposed authority to purchase shares.

Formerly, shares purchased by a company were automatically cancelled. If the Company were to purchase any of its own shares pursuant to the authority conferred by Resolution 11, the Company would consider at that time whether to hold those shares as treasury shares unless there were some exceptional and unforeseen reasons at the time of purchase which meant that it were not in the interests of the Company to do so. The Act permits a company to hold its own shares as treasury shares, to transfer them for the purposes of employee share schemes, or to cancel those shares. No dividends would be paid on and no voting rights would attach to any shares whilst held in treasury. The Company does not currently hold any treasury shares as defined by the Act.

Cancellation of share premium account (Resolution 12)

The Act restricts the circumstances in which a public company may pay dividends to its members or repurchase its own shares. In particular, a public company can only pay dividends or repurchase its shares if it has sufficient distributable reserves available for the purpose (or, in the case of a repurchase of own shares, out of the proceeds of a fresh issue of shares). As at 31 March 2011 the Company's issued share capital was £16,253,885 with a share premium account of £53,646,825. As at the same date, the Company had retained earnings of £2,714,298 and a deficit in other reserves of £78,749 and had £55,243,269 owed to it by its subsidiaries, principally by Torotrak (Development) Limited.

The Act provides that a public company may, subject to any restriction in its articles of association and approval being granted by the High Court of Justice of England and Wales (the "Court"), reduce its share premium account by special resolution. It is proposed that the Company create increased distributable reserves through a Court-approved reduction of capital to be effected by way of a cancellation of the Company's share premium account (as permitted by article 52(a) of the Company's Articles of Association), the amount to be cancelled being the full £53,646,825 standing to the credit of that account. The Board considers that any such cancellation should preserve and enhance the Company's ability to pay dividends in the future or to repurchase its own shares, taking into account any requirement to review the anticipated level of repayment and recoverability of its loans to subsidiaries and any changes of accounting practice that might otherwise prevent the Company from paying dividends in the future.

In order to proceed with the proposed cancellation, the Company must first obtain the approval of shareholders by way of special resolution and such approval is being sought at this year's AGM by Resolution 12. If the shareholders approve the cancellation, the cancellation will not become effective unless and until approval has been obtained from the Court and the court order approving it has been filed with the Registrar of Companies. The Company's ability to utilise the distributable reserves created by the cancellation will depend, inter alia, on any directions given by the Court and on the terms of any undertaking which the Company may be required to give for the protection of the Company's creditors at the date the cancellation takes effect. Resolution 12 will grant the Directors

authority to take all necessary steps to effect the cancellation provided that the court order is registered with the Registrar of Companies no later than the earlier of next year's AGM or the date 15 months from the date of the resolution being passed.

Once the terms of any undertaking are satisfied subsequently, the Company would expect to be able to use the distributable reserves that arise following this process to pay dividends to shareholders or repurchase its own shares, although the Board has no immediate intention to do so. Shareholders should note that the cancellation of the share premium account will not of itself involve any distribution or repayment of capital or share premium by the Company to shareholders and will not reduce or increase the Company's net assets.

Company Information

Bankers

Barclays Bank plc
Navigation Way
Preston PR2 2XY

Stockbrokers and financial advisors

Charles Stanley Securities
131 Finsbury Pavement
London EC2A 1NT

Auditors

PricewaterhouseCoopers LLP
101 Barbirolli Square, Lower Mosley Street
Manchester M2 3PW

Solicitors

Squire, Sanders & Dempsey (UK) LLP
Trinity Court
16 John Dalton Street
Manchester M60 8HS

Registrar

Capita Registrars
The Registry
34 Beckenham Road
Beckenham BR3 4TU
www.capitaregistrars.com

Financial PR advisors

Tavistock Communications
131 Finsbury Pavement
London EC2A 1NT

Financial calendar

Annual General Meeting	29 July 2011
First interim management statement	29 July 2011
Half-year results	November 2011
Second interim management statement	February 2012
Preliminary results – year ending 31 March 2012	May 2012

Company Secretary

Jeremy Deering MA ACA

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