

NEWS RELEASE



25 May 2010

Torotrak PLC (LSE: TRK)
("Torotrak" or "the Company")

Preliminary results announcement for the year ended 31 March 2010

	2010 £m	2009 £m
Revenue	7.6	4.6
Operating cash (outflow)/inflow	(1.1)	1.0
Year end net cash	13.1	15.0
Operating profit/(loss)	0.1	(2.4)
Profit/(loss) after tax	0.4	(1.8)

Financial highlights

- Revenue growth of 66% and above break even in profit after tax
- Robust cash resources of £13.1m at year end
- Three-year cumulative positive operating cash flow of £0.4m, considerably ahead of expectations set at the time of the 2007 Placing & Open Offer
- Strong level of licensing and engineering orders

Operational highlights

- Refreshed strategy increases emphasis on lead customer programmes and energy efficiency solutions to tackle CO₂ emissions
- Commercial vehicle prototype transmissions built and on rig tests, with lead programmes progressing well
- Second Allison contract payment of £3.75m received in March 2010
- Infnittrak's second transmission completing field tests prior to production release
- 15% stake in Rotrex acquired and Rotrak joint venture established to develop and commercialise new technology to assist with engine downsizing

Dick Elsy, Chief Executive said:

"The evolution of our strategy is already leading to a sharper and more focused Torotrak. Our successes in business development over the past few years and our strong funding base have given us choices about which opportunities we should pursue to secure best returns.

"Our lead customer programmes in the commercial vehicle sector are at the front of that set of choices and we are making excellent progress towards the delivery of substantial value in this area.

"Our pursuit of new market opportunities is very clearly focused on energy efficiency solutions, where we have already begun to make our presence felt with our work on developing innovative yet pragmatic solutions for CO₂ reduction".

For further information, please visit www.torotrak.com or contact:

Dick Elsy, Chief Executive
Jeremy Deering, Finance Director
Torotrak Plc
Tel: +44 1772 900938 or +44 20 7920 3150

Simon Hudson
Lulu Bridges
Tavistock Communications
Tel: +44 20 7920 3150

1. Summary

1.1 Introduction

This has been a year of encouraging progress. In particular, our key prototype programmes, which are of material significance to Torotrak's future, have achieved all their critical milestones and are generating a real sense of confidence both with our customers and within Torotrak. The one disappointment this year was that the most demanding of launch objectives that we accepted for Infinitrak were not fully realised.

1.2 Results

Revenue grew by 66% from £4.6m to £7.6m, as a result of the substantial licensing revenues during the year. We achieved, as expected, the milestone of break even for the year, with profit after tax of £0.4m (2009: £1.8m loss).

Although we achieved break even after tax, operating cash flow turned negative at a £1.1m outflow (2009: £1.0m inflow) as a result mainly of licence fees which were recognised in revenue during the year, but were pre-paid and hence improved last year's cash flow at the expense of this financial year.

It is however encouraging to note that we have generated positive cumulative operating cash flow of £0.4m over a three-year time frame, making our "pre-production" development programmes entirely self-funded. This has resulted in £13.1m of cash at year end, putting us well ahead of our plans when raising new equity in July 2007.

1.3 Evolution of strategy

During the past three years, Torotrak has undergone a period of intensive business and technology development to assure a successful outcome to its diversification strategy. As a result, we have secured a range of world-class licensees and partners with whom we are working on programmes which are targeted at volume manufacture, primarily in main drive transmission applications.

With these client arrangements secured, and against the backdrop of some increasingly material opportunities both within and outside of our current portfolio of licensees and customers, we have this year reviewed our areas of strategic focus.

As a result, Torotrak will now increase the weighting of resources to deliver programme results for established high-value customers. Beyond these priorities, the Company's development efforts will be focused on more recently identified areas of opportunity to expand the application of Torotrak's technology to the rapidly growing markets for efficiency enhancing devices in the field of CO₂ mitigation. In pursuit of these new opportunities, Torotrak is increasingly seeking and establishing partnership relationships to allow a sharing of product development costs and to provide greater control over the routes to markets.

Finally, and consistent with these main priorities, we will continue to apply a significant proportion of our overall engineering resource to core R&D activity in order to maintain our established global leadership in the field of traction drive intellectual property and expertise.

We will report to shareholders and the market in a simplified way around this core objective in three new reporting areas:

- Efficient and scalable transmissions for commercial vehicles
- Efficient and scalable transmissions for other markets
- Energy efficiency solutions

These reporting areas are reviewed below in section 3, together with an update on our research and development activities which underpin and expand Torotrak's intellectual property and patent base.

1.4 Programme confidence

The progress within the Company is not always visible to the outside world, since much of what we do is not on public display. A good example is with Allison Transmission, Inc ("Allison"), which a year ago was a newly signed-up licensee and today has produced a first working prototype transmission and has substantially completed an intensive programme of technology transfer with us. This

important relationship has a real sense of urgency and confidence, backed by substantial customer investment and resolve.

Allison's second licence payment in March 2010 was an important milestone at the end of the year and underlines their confidence in our technology and in our technology transfer process. This has been a rigorous activity to allow Allison to absorb the key elements of our technology. It has also effectively been a very detailed due diligence of our technology following the signing of the licence agreement in March 2009.

Progress has also been strong with our second major client in the commercial vehicle sector, the European Truck and Bus Manufacturer (ETBM). We have completed design and procurement of this client's first transmission and have the first prototype unit built and running on our test rigs. These achievements triggered the payment of two lump sums due from the ETMB under the terms of its licence.

In the Outdoor Power Equipment (OPE) sector, we have to acknowledge that the aggressive timescale we set a year ago to develop and launch the second Infinitrak lawn tractor transmission has proved, ultimately, to be too ambitious. Although the new Single Toroidal Transmission (STT) has achieved its performance objectives, despite some 8,700 rig and field test hours to date, there has simply not been enough time to complete the required durability testing to release the transmission to production this year.

As a more broad-based demonstration of increasing interest and activity levels, we have a number of Torotrak teams spending considerable time with customers in Asia, the US and in mainland Europe. That is a good sign, and positive evidence of constructive engagement on programmes with real commercial, and shared, objectives.

2. Key priorities

We are now increasing the weighting of resources that are applied to the delivery of those programmes for our established high-value customers which have firm production intent. Going forward, we aim to reduce the level of turnkey engineering projects that we take on in order to allow our high-level skills to be applied more in conjunction with third-party partners and hence obtain greater operational leverage. Our key priorities are now summarised as follows:

- Commercial vehicles – getting Allison through to its next milestone, signifying a high level of confidence in production commitment and triggering commitment to further licence fees
- Commercial vehicles – getting our European Truck and Bus Manufacturer through to completion of its turnkey programme in 2011
- Infinitrak – launching our technology in commercially significant volumes and increasing market confidence in those specific areas of the market that command a premium
- Significant new opportunity – progressing our programmes of product and business development for engine efficiency improvement and kinetic energy recovery systems.

Our people resources will be focused on these strategically important programmes throughout much of the next financial year to March 2011, with employee numbers expected to be similar to those at March 2010.

We would expect, however, for there to be a gradual reduction in costs during the financial year ending 31 March 2011 and thereafter as our existing licensees and partners progress from prototype to production programmes, and as new customers require support primarily only from Torotrak's core-skills areas.

The consequence of seeking increased levels of partnership and co-investment as a route to commercialisation in some markets, rather than a standard licensing model with significant up-front licence payments, could mean the need for a prudent level (ie, capped and matched to the scale of opportunity) of cash funding in key areas of new business. However, we aim to limit investment, and hence cash outflows, so as to plan the business around a minimum level of cash reserves over the medium term. The objective is to maintain funding resilience without further shareholder funding being required.

3. Business review

3.1 Three areas of focus

Following the review of Torotrak's strategic objectives, the Company's resources are now being concentrated on applying our technology in three main areas:

- **Efficient and scalable transmissions for commercial vehicles:**
Delivering our existing licensees' programmes on time and within budget
- **Efficient and scalable transmissions for other markets:**
Ranging from lawn and garden equipment through to tractors, forklift trucks and large off-highway applications
- **Energy efficiency solutions:**
Improving engine efficiency through cost-effective auxiliary devices
A new area of opportunity in the commercial and passenger vehicle market with strong legislative pressures driving change
Realising energy recovery systems through power-dense transmissions for flywheel-based hybrid systems
Responding to confirmed demand from the commercial and passenger vehicle markets, driven in part by legislative pressure, and with potential for wider applications.

In each of these areas, our technology addresses four key requirements demanded of any new transmission technology:

- Greater fuel efficiency
- Reduced emissions
- High levels of control
- An affordable price

3.2 Efficient and scalable transmissions - commercial vehicles

Revenue	2010 £000	2009 £000
Licence fees	6,027	2,933
Engineering fees	1,454	817
Total	7,481	3,750

Engineering resources – time spent during the year	2010	2009
	55%	34%

It is important this financial year to look separately at our progress in the commercial vehicle sector due to the materiality of revenues and resources. There is also a substantial opportunity in this sector for longer term per unit royalties.

Our business activities in commercial vehicles are in the main prototyping phase. This attracts both substantive engineering work and fees as well as licence milestone payments. This part of our business has represented 98% of total business revenues this year (2009: 81%) and has attracted 55% of our engineering time (2009: 34%).

We have made substantial progress on these programmes which have benefitted from highly co-operative working relationships with customers as well as firm project and financial management. We meet regularly with customers to ensure we manage risk together and to share a common view of progress. As a result, we have met key milestones and all our projects are within budget and on time.

European Truck and Bus Manufacturer

Our project management expertise is exemplified by our programme with our European Truck and Bus Manufacturer. We are working with the company to develop a main drive transmission for its

large truck and bus applications. Torotrak is contracted to carry out the majority of the detailed engineering work; we design, develop, build and test the prototype transmissions.

Our work rate this financial year has been impressive. We have finalised the design of 376 uniquely engineered parts, sourced, in total, more than 2500 components and built the first prototype transmission. This has triggered contractual milestones, resulting in two lump sum payments totalling £449k being made, in addition to the regular income stream from the client, arising from ongoing engineering work.

The first prototype transmission is running successfully on a Torotrak test rig, undergoing its initial development and validation work as planned. Further rig work will include full-load testing with inputs in excess of 1800Nm of torque and 260kW of power. Another transmission will be built into a host vehicle and then vehicle development work, calibration and testing will begin. This work will continue throughout the current financial year ending 31 March 2011. Additional prototype transmissions are under construction, all of which are scheduled to become dedicated rig test units, other than one which will be installed in an additional, completely different vehicle in calendar year 2011.

The vehicle test results will validate those unique characteristics of our full-toroidal traction technology that make it so compelling to the commercial vehicle market. The substantive fuel economy improvements and outstanding levels of driver comfort and control that we will deliver come from the combination of a highly efficient variable drive unit incorporated into a highly effective “shunted” gearing system. This patented shunt arrangement is the mechanism that allows power-splitting and is fundamental to extracting the technology’s maximum fuel economy benefits. Our prototype programme is intended to prove out these key elements so that our customer can proceed with full confidence to a production implementation programme.

Allison Transmission, Inc (“Allison”)

Similar strong progress has been made with Allison. This fast-moving programme has already produced prototype transmissions that were on test just 12 months after Allison secured licence and development rights. We have benefited in the past year from working closely on a joint project with such a highly capable partner as Allison.

Product development has accelerated and the anticipated outcome has become more certain. Allison is conducting and leading the greater part of this programme’s engineering from the USA with Torotrak providing the key skills and knowledge specific to our technology. This has resulted in an aggressively timed, but tightly managed programme that has met all its targets.

Continued progress is highly material to the coming financial year ending 31 March 2011 due to Allison’s right to take up further options under its licensing arrangements with us (see “Financial progression and outlook” below). Its decision will be influenced by the outcome of the prototyping and development work over the next year and by Allison’s assessment of the level of exclusivity that it will require going forward.

3.3 Efficient and scalable transmissions – other markets

Revenue	2010 £000	2009 £000
Licence fees	30	266
Engineering fees	8	470
Total	38	736

Engineering resources – time spent during the year	2010	2009
	17%	36%

Revenue from the transmission markets outside commercial vehicles has reduced considerably from last year and is a very low percentage of overall revenues. This mainly reflects the fact that we are at a different stage with these licensees and partners who have paid licence fees in previous years. Planned increases in revenues in this area will include our share of future earnings from Infinitrak, as it proceeds to production and from potential licence fees from new customers.

The transmission market outside commercial vehicles has required less of Torotrak's internal resources. This is partly as a result of our partnering arrangement with MTD where our joint venture, Infinitrak, has its own core development resources. In addition, going forward, we would aim to develop these markets on a more partnership-based approach, requiring more specialised input from Torotrak's engineers.

Infinitrak

The latest Infinitrak product, the Single Toroidal Transmission (STT) for the Outdoor Power Equipment (OPE) market, is fully tooled for production and is undergoing its final production validation testing. The new traction epicyclic technology has successfully completed performance testing and is demonstrating its strong competitive advantage. The Joint Venture has not, however, had sufficient time to complete in-field validation testing with a meaningful sample size of off-tools units, which would have allowed a limited, late-season introduction.

Infinitrak accepted, from the outset, that its lead customer's requirement to include the new traction epicyclic technology in its planned market launch posed a risk to introduction timing, and it is clearly a frustration not to have produced transmissions for this season. But the product must be launched with appropriate robustness and diligence. Infinitrak's validation testing ensures that all the transmissions produced by the company can be assured of delivering consistent and predictable standards of performance throughout their service life. This necessarily involves an extensive programme of rig and field tests; there can be no shortcuts, despite the realisation to date of around 8,700 hours of total test time on STT transmissions.

We have agreed with our JV partner that Infinitrak will continue with its intensive test programme, including final validation of fully-tooled transmissions in a variety of locations and operating environments. In parallel to these final acceptance tests, Infinitrak will also be presenting the benefits that its technology brings to leading opinion formers.

In addition to these activities, we are pleased to confirm that Infinitrak is now also working with a prominent third-party OPE vehicle manufacturer that is currently evaluating the STT with a view to potentially specifying it in a new ride-on mower application.

Off-highway

We reported in our half-year statement that at the Agritechnica exhibition in Hannover in November 2009, our licence partner Carraro revealed their range of VaryT transmissions for agricultural vehicles. Further public exposure in April 2010 at the Bauma exhibition in Munich built upon this. Carraro's launch timing remains undisclosed but they continue to increase steadily the technology's profile, also promoting the technology in the trade and agricultural business media.

In line with our updated business strategy, we have been selective about our business development activities in this market. We have been seeking partners that have high levels of product development capability and the financial commitment to commercialise the technology. This approach has brought us close to prospects in emerging markets where appetite for relevant and proven new technology is enormous.

We are also in contact with established players in markets such as forklift trucks where our technology represents a paradigm shift. We have progressed these relationships from business development into the concept development phase.

3.4 Energy efficiency solutions

Revenue	2010 £000	2009 £000
Licence fees	-	-
Engineering fees	125	131
Total	125	131

Engineering resources – time spent during the year	2010	2009
	8%	5%

One outcome of our strategic review is a determination to invest technical and commercial resources in a material and growing opportunity for Torotrak's technology: the growing demand for technology and systems that enable substantial CO₂ emissions reduction. Our work to develop our technology to serve this market comes under the heading of **Energy efficiency solutions**. These are applications that sit outside of main drive transmissions. They need to be affordable, something that plays to Torotrak's competitive strengths.

Our work in this area this year has been focused on two types of application: auxiliary devices to support engine downsizing and systems to recuperate and re-use kinetic energy that is otherwise wasted when a vehicle brakes. A year ago this was highly speculative business development work, but Torotrak has made significant progress.

Revenues are inevitably at a low level and at this point in time relate mainly to contributions from government sponsorship for three prominent projects described below.

Development time spent by Torotrak engineers has been very targeted and we have benefited from more of a partnership-based approach with other technology companies and OEMs.

Engine downsizing – the Rotrak joint venture

The arrangements with Rotrex, completed on 12 May 2010, form an important new relationship, and represent an outcome of our strategic review in terms of combining our skills with those of a strategic technology partner. This allows us to address as quickly as possible the material opportunities within the engine downsizing market. Total investment in these arrangements amounts to £500k in gross cash terms. After excluding Torotrak's 50% interest in the £200k cash balances within Rotrak, the initial net investment amounts to £400k.

In the high-volume automotive industry a significant proportion of the sector's investment is going into developments that improve engine efficiency. There is a pressing need for vehicle manufacturers to reduce CO₂ emissions for legislators and fuel consumption for customers. Reducing the size of their engines while maintaining their power output is recognised as being one of the most pragmatic approaches. A smaller engine normally has fewer cylinders than a larger displacement unit, and so has lower frictional and pumping losses. The smaller engine is then pressure-charged to deliver the same power as the larger engine.

The Rotrak joint venture combines our compact variable drive technology with a novel compressor technology developed by Rotrex that has been proven in motorsport and the performance vehicle market. This new technology solution has the ability to outperform the most sophisticated current systems when fitted to small engines. The key selling points of the concept are cost-competitiveness against complex turbocharger systems and its outright performance. Our studies indicate that the system can reduce the low speed "lag" that most vehicle manufacturers are working to overcome in their engine downsizing work.

Rotrex and Torotrak together have established that there is tangible industry appetite among automotive Tier-One suppliers and vehicle manufacturers to support our decision to invest in the shared enterprise. This represents a distinct opportunity in a material and growing market (independent analysts estimate that the market for pressure-charged gasoline engines will grow from the current global level of 2.5 million units per year to 12 million by 2016). The Joint Venture's next step is to progress to a jointly funded prototype programme to demonstrate the capability of the technology in a suitable vehicle.

Energy recovery

In the new and growing market for mechanical kinetic energy recovery systems (KERS) we have been reinforcing our position as the transmission of choice for flywheel-based hybrid systems. Torotrak does not provide complete end-to-end KERS technology, but by working in partnership with flywheel technology providers, we can realise a valuable combined technology and commercial opportunity. The addressable market for flywheel-based hybrids in both passenger car and commercial vehicle markets is potentially very significant.

Projections for conventional electrical hybrid technologies indicate that only 2.0% of global car production (of approximately 88 million units per year) will be for either mild or full hybrids by 2016 (source: CSM Worldwide Inc) but take-up of this type of vehicle is ultimately constrained by the cost and complexity of electrical hybrid technology. Flywheel-based systems present the industry with a breakthrough in the cost, complexity and performance balance for hybrid drivelines, unlocking

substantially increased levels of overall penetration. This outlook is supported by the views of two car makers with whom we are currently engaged, indicating volumes in excess of 100,000 units per year.

In the commercial vehicle market, the technology not only holds the promise of being fitted as original equipment on new vehicles, but also has great potential for providing a cost-effective retrofit opportunity to sectors within the existing commercial vehicle pool. In a similar way as for passenger cars, our own estimates for penetration of today's hybrid technologies on commercial vehicles is very low, being just 3.0% of new vehicle output, currently forecast to be around 2.2 million units per year by 2016, and once again held-back by cost and complexity pressures. Here, we see substantial opportunity for flywheel-based hybridisation, with the potential to provide mechanical hybrid solutions at lower-cost levels that will enable the fitment of this technology on non-subsidised, straightforward commercial terms.

Torotrak is involved in three programmes within the KERS market that we have previously reported on. These are: Flywheel-Hybrid System for Premium Vehicles (FHSPV), Flybus, and Kinerstor. All these programmes are collaborative and involve consortium partners.

The FHSPV programme will demonstrate a KERS system in a luxury car built by Jaguar. Work is progressing through the prototype build stage.

Torotrak leads the Flybus programme and will demonstrate the fuel economy benefits of using KERS in a city bus. The consortium enjoys the support of Ricardo, Allison and Optare. Progress is good and we are scheduled to deliver a proof-of-concept prototype for evaluation in the first half of 2011.

The Kinerstor programme sets out to prove that a low-cost KERS system can be applied to a broad range of vehicles including mainstream passenger cars and off-highway vehicles. In this project Torotrak is providing engineering solutions for low-cost variable drives.

There is a strong sense of purpose in the three consortia and results will be reported in coordination with the TSB and our partners.

The profile we have gained through our involvement with these consortia has led to further commercial development in the KERS field. We are now the transmission technology of choice on two further automotive flywheel-based hybrid programmes, one at a prototype stage and the other at concept development stage. In line with the outcome of our strategy review relating to the best way to progress such developments, we are working collaboratively on these projects with our selected technology and industry partners. With these two programmes, we have completed an appropriate technology transfer process and our partners are now integrating our variable drive technology into their clients' projects. Torotrak's involvement in the process is fundamentally focused on providing access to its intellectual property and upon delivering its core know-how.

Through these programmes, Torotrak's objective is to ensure that the company's traction drive technology is confirmed as the mechanical transmission technology of choice for flywheel-based hybrid systems. In this way, as these projects progress beyond prototype and into volume production, Torotrak's variable drive will become the incumbent technology and the Company will benefit from associated manufacturing licence fees and subsequent per-unit royalties generated.

3.5 Core R&D and other development activity

Engineering resources – time spent during the year	2010	2009
	20%	24%

Whilst the weighting of our development resources has now been shifted towards delivery of our established high-value client programmes, we continue to apportion some 20% of our capability to the area of core technology and application-based research and development.

Most of our current new patent activity addresses requirements arising out of our work in the heavy-duty commercial vehicle sector and also from our involvement in developing low-cost variators for variable drive supercharger where, for example, simple end-load and roller control mechanisms are key to exploiting the technology in this new market. Torotrak has filed a total of ten new patents in this year, four of which were made in conjunction with partners.

Other R&D activity now concentrates very firmly on another area that is key to the commercialisation of our technology – namely, the supply chain required for the traction discs and rollers that are at the heart of the Torotrak variator. The creation of a broad and capable supply base for these components is essential to the ultimate exploitation of the technology. Torotrak has a unique facility for the validation of these components on six purpose-designed test rigs.

4. Financial progression and outlook

4.1 Financial progression

Torotrak's year-on-year progress is influenced considerably by the timing of licence agreements. This year is no exception, with a £3.75m licence payment from Allison being received in March 2010 and impacting materially, as expected, the year's results.

The next financial year to 31 March 2011 will similarly be impacted by the outcome and timing of licensing decisions and, in particular, by Allison's choices over whether to take up further options under the Licence and Exclusivity Agreement. Allison has three choices to make by either March 2011, or in certain circumstances, by June 2011 at the latest, being:

1. To retain its non-exclusive licence in the below 14,000 kilogram gross vehicle weight commercial vehicle market, but not to seek further exclusivity, in which case no further licence payments are due, or
2. To obtain two more years of exclusivity (apart from our existing licensees in this area) and acquire rights in the over 14,000 kilogram gross vehicle weight commercial vehicle market. This would trigger an immediate payment of £3.5m and a further £3.25m a year thereafter, or
3. To acquire rights in the over 14,000 kilogram gross vehicle weight commercial vehicle market and obtain permanent exclusivity in its main licence fields (apart from existing licensees). This would trigger an immediate payment of £14.0m.

There are also other licensing opportunities with customers in other markets, albeit Torotrak has to judge whether co-investment may in fact be economically better for us in the medium to long term (at the expense of shorter term financial gains). A good example of this is our decision to form a joint venture with Rotrex and invest in that relationship to drive forward our ambitions in the engine downsizing market. A model more typical of Torotrak's previous approach would have been to have waited whilst conducting concept studies for a target customer, before seeking to deliver at a later stage a licence arrangement and up front fees. However, this approach would have had the following disadvantages in commercial terms:

1. It would have cost us time – something vital to the ultimate success in securing a position in this area of the market. Gaining a licence fee when the market opportunity has diminished is not a sensible objective given that our funding position is strong.
2. It would have placed considerably more emphasis on Torotrak alone to have provided resources to provide a demonstrable solution – tying up resources on a "mini" turnkey solution basis, and exposing us to turnkey contractual commitments, often on a fixed price basis.
3. Perhaps most importantly, the approach does not lend itself to collaborative, risk-sharing development with a partner with which we can develop joint IP.

Our base case financial planning assumes that our commercial model will move more in the direction of co-investment at the potential expense of up front licence fees. As a result, whilst we plan on an increasing revenue profile, it is possible that the next financial year to March 2011 could return to an operating cash outflow and a loss after tax position. This would be a consequence of a different form of doing business with customers, rather than a backward step in performance. Torotrak's progress clearly needs to be viewed by other measures on top of the high-level financial highlights, and our task will be to point to the progress and milestones that inform shareholders of the increased prospects, confidence and proximity to recurring royalties and production earnings.

Despite the above caution, it should be noted that the final outcome for the financial year to March 2011 will be determined materially by the Allison licensing decision as described above. If Allison chooses to exercise its perpetual exclusivity option, then there would be a material financial impact and step improvement in cash flow and profitability.

4.2 Building visible value

Our objective is to build more visibly the value of our technology by a sharper focus on our most material opportunities. We will also seek to accelerate the delivery of financial returns where we see the potential for greater value. This may be through a shared-risk approach or through increased control by third parties where that leads to more rapid or widespread exploitation of Torotrak's technology.

4.3 Outlook

Torotrak enters the new financial year with a high degree of confidence and a sharpened focus. We have an important year ahead of us and tangible opportunities to deliver. Torotrak is well positioned to do so.

Financial Information 2010

Consolidated Income Statement

For the year ended 31 March 2010	Notes	Group 2010 £000	Group 2009 £000
Revenue	5	7,644	4,617
Direct costs		(545)	(604)
		7,099	4,013
Development expenses		(5,228)	(4,666)
Administrative expenses		(1,814)	(1,796)
Operating profit/(loss)	5, 6	57	(2,449)
Finance income		140	462
Profit/(loss) before income tax		197	(1,987)
Income tax credit		190	199
Profit/(loss) for the year attributable to equity holders of the Parent		387	(1,788)
Basic earnings/(loss) per share (pence)	7	0.24	(1.22)
Diluted earnings/(loss) per share (pence)	7	0.23	(1.22)

The results above derive from continuing operations.

Consolidated Statement of Comprehensive Income

For the year ended 31 March 2010	Group 2010 £000	Group 2009 £000
Profit/(loss) for the year	387	(1,788)
Currency translation differences	19	136
Total comprehensive income / (expense) for the year	406	(1,652)

Balance Sheets

As at 31 March 2010	Notes	Group 2010 £000	Restated* Group 2009 £000	Restated* Group 2008 £000
Assets				
Non-current assets				
Intangible assets		1,350	1,220	1,154
Property, plant and equipment		1,028	929	1,102
Investments		-	-	-
Trade and other receivables	8	457	-	-
Total non-current assets		2,835	2,149	2,256
Current assets				
Inventories		384	54	32
Trade and other receivables	8	450	818	517
Current tax		262	330	514
Cash and cash equivalents	9	13,092	14,975	11,549
Total current assets		14,188	16,177	12,612
Total assets		17,023	18,326	14,868
Liabilities				
Non-current liabilities				
Joint Venture loan	10	(457)	-	-
Current liabilities				
Trade and other payables	10	(2,660)	(5,141)	(2,833)
Total liabilities		(3,117)	(5,141)	(2,833)
Net assets		13,906	13,185	12,035
Capital and reserves				
Issued share capital	11	16,173	16,069	14,608
Share premium		53,646	53,646	52,766
Other reserves		(31)	(31)	(202)
Retained earnings		(55,882)	(56,499)	(55,137)
Total equity attributable to equity holders of the Parent		13,906	13,185	12,035

*See note 12 for an explanation of prior year adjustments.

Consolidated Statement of Changes in Equity

	Group share capital £000	Group share premium account £000	Group other reserves £000	Group accumulated loss £000	Total equity £000
Balance at 1 April 2008	14,608	52,766	(202)	(54,829)	12,343
Prior year adjustment (note 12)	-	-	-	(308)	(308)
Restated balance	14,608	52,766	(202)	(55,137)	12,035
Comprehensive income					
Loss for the period	-	-	-	(1,788)	(1,788)
Other comprehensive income					
JV currency translation difference	-	-	-	136	136
Total other comprehensive income	-	-	-	136	136
Total comprehensive income	-	-	-	(1,652)	(1,652)
Transactions with owners					
Shares awarded at cost price	-	-	171	(171)	-
Share based payment charge	-	-	-	461	461
Issue of shares	1,461	951	-	-	2,412
Expenses of share placing	-	(71)	-	-	(71)
Transactions with owners	1,461	880	171	290	2,802
Balance at 1 April 2009 (restated)	16,069	53,646	(31)	(56,499)	13,185
Comprehensive income					
Profit for the period	-	-	-	387	387
Other comprehensive income					
JV currency translation difference	-	-	-	19	19
Total other comprehensive income	-	-	-	19	19
Total comprehensive income	-	-	-	406	406
Transactions with owners					
Share based payment charge	-	-	-	315	315
Issue of shares from vesting of LTPSP	104	-	-	(104)	-
Transaction with owners	104	-	-	211	315
Balance at 31 March 2010	16,173	53,646	(31)	(55,882)	13,906

The other reserve represents 99,490 ordinary shares of 10 pence each issued to the Employee Share Trust in 2007 at a price of 30 pence, which have been debited against reserves. As the Employee Share Trust distributes these shares to the beneficiaries of the Trust an amount will be transferred between the other reserve and the Group accumulated profit and loss reserve.

Consolidated Statement of Cash Flows

For the year ended 31 March 2010	Notes	Group 2010 £000	Group 2009 £000
Cash flows from operating activities			
Profit/(loss) for the year		387	(1,788)
Adjustments for:			
Depreciation	6	403	333
Amortisation	6	138	104
Finance income receivable		(140)	(462)
Loss on disposal of plant and equipment	6	12	13
Loss on disposal of intangible assets	6	149	167
Taxation		(190)	(199)
(Increase) in inventories		(330)	(22)
(Increase)/decrease in trade and other receivables		(84)	(119)
(Decrease)/increase in trade and other payables		(2,039)	2,141
Cost of equity-settled employee share schemes and bonuses		315	461
Cash (used)/generated in operations		(1,379)	629
Income tax received		258	382
Net cash (used)/generated in operating activities		(1,121)	1,011
Cash flows from investing activities			
Acquisition of property, plant and equipment		(517)	(52)
Acquisition of patents		(399)	(347)
Finance income received		135	458
Net cash (used)/generated in investing activities		(781)	59
Cash flows from financing activities			
Net proceeds from the issue of share capital		-	2,341
Net cash generated in financing activities		-	2,341
Net (decrease)/increase in cash and cash equivalents		(1,902)	3,411
Cash and cash equivalents at start of year		14,975	11,549
Exchange gain on currency translation		19	15
Cash and cash equivalents at end of year	9	13,092	14,975
Cash and cash equivalents held in the JV not under direct control of the Group (included above)	9	107	171

The accounting policies and notes form part of this Financial Information which was approved by the Board of Directors on 25 May 2010.

Notes to the Financial Information

1. General Information

Torotrak plc (the Company) is a publicly traded company incorporated and domiciled in the UK. The address of its registered office is 1 Aston Way, Leyland, Lancashire PR26 7UX. The Company is listed on the London Stock Exchange.

The Annual Report and Financial Statements for the year ended 31 March 2009 have been delivered to the Registrar of Companies and are available on Torotrak's website www.torotrak.com and the Annual Report and Financial Statements for the year ended 31 March 2010 will be posted to shareholders and made available on Torotrak's website in June 2010.

The auditors have reported under section 495 of the Companies Act 2006 on the Group's statutory accounts for the years ended 31 March 2010 and 31 March 2009 and the auditors' reports were unqualified and did not contain any emphasis of matter paragraphs or statements under Section 498 of the Companies Act 2006.

2. Basis of Preparation

This preliminary announcement does not comprise statutory accounts within the meaning of section 434 of the Companies Act 2006. The financial information for the year ended 31 March 2010 has been prepared under the historical cost convention and in accordance with EU Endorsed International Financial Reporting Standards (IFRS), IFRIC interpretations and the Companies Act 2006 applicable to companies reporting under IFRS. The accounting policies used are the same as those disclosed in the audited Financial Statements for the year ended 31 March 2009, with the exception of the policy disclosed in note 4 below.

3. New standards, amendments to standards or interpretations

The Group has adopted the following new and amended IFRSs as of 1 January 2009:

IAS 1 (revised), 'Presentation of financial statements' – effective 1 January 2009. The revised standard prohibits the presentation of items of income and expenses (that is, 'non-owner changes in equity') in the statement of changes in equity, requiring 'non-owner changes in equity' to be presented separately from owner changes in equity in a statement of comprehensive income. As a result the group presents in the consolidated statement of changes in equity all owner changes in equity, whereas all non-owner changes in equity are presented in the consolidated statement of comprehensive income. Comparative information has been re-presented so that it also is in conformity with the revised standard. As the change in accounting policy only impacts presentation aspects, there is no impact on earnings per share.

IFRS 8, 'Operating segments', is effective for periods commencing after 1 January 2009 and has been implemented in these consolidated Financial Statements. IFRS 8 replaces IAS 14 and aligns segment reporting with the requirements of the US standard SFAS 131, 'Disclosures about segments of an enterprise and related information'. The new standard requires a 'Management approach', under which segment information is presented on the same basis as that used for reporting to senior management.

IFRS 2 (amendment), 'Share-based payment' (effective 1 January 2009) deals with vesting conditions and cancellations. It clarifies that vesting conditions are service conditions and performance conditions only. Other features of a share-based payment are not vesting conditions. These features would need to be included in the grant date fair value for transactions with employees and others providing similar services; they would not impact the number of awards expected to vest or valuation there of subsequent to grant date. All cancellations, whether by the entity or by other parties, should receive the same accounting treatment. The group and company has adopted IFRS 2 (amendment) from 1 January 2009. The amendment does not have a material impact on the group or company's financial statements.

b) Standards, amendments and interpretations effective in 2010 but not relevant:

The following standards, amendments and interpretations to published standards are mandatory for accounting periods beginning on or after 1 January 2010 but they are not relevant to the Group or Company's operations:

IFRIC 17, 'Distribution of non-cash assets to owners' (effective on or after 1 July 2009).

IAS 27 (revised), 'Consolidated and separate financial statements', (effective from 1 July 2009). IFRS 3 (revised), 'Business combinations' (effective from 1 July 2009).

IAS 38 (amendment), 'Intangible Assets'.

IFRS 5 (amendment), 'Non-current assets held for sale and discontinued operations'.

IAS 1 (amendment), 'Presentation of financial statements'.

IFRS 2 (amendments), 'Group cash-settled share-based payment transaction (effective from 1 January 2010)'.

4. Operating segments

We have implemented in the financial information a new financial reporting standard, 'IFRS 8', which 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

In addition, whilst the results of our Joint Venture, Infnitrak, are currently immaterial and therefore do not justify reporting as a separate segment, they form an important part of our future growth plans. The investment in the Joint Venture is reported separately within the segmental balance sheets in note 5.

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.

5. Segmental analysis

Year ended 31 March 2010

	Engineering services £000	Income from licence agreements £000	Development activities £000	Other £000	Total £000
Revenue (by market)					
Commercial vehicles	1,466	6,027	-	-	7,493
Off-highway	30	-	-	-	30
Automotive	113	-	-	-	113
Other	5	-	-	3	8
	<u>1,614</u>	<u>6,027</u>	<u>-</u>	<u>3</u>	<u>7,644</u>
Direct costs	(458)	(85)	-	(2)	(545)
Gross profit	1,156	5,942	-	1	7,099
Other operating costs	-	-	(5,228)	-	(5,228)
Segmental contribution/(loss)	1,156	5,942	(5,228)	1	1,871
Other operating costs not allocated to segments					<u>(1,814)</u>
Operating profit as reported in Income Statement					<u>57</u>

Year ended 31 March 2009

	Engineering services £000	Income from licence agreements £000	Development activities £000	Other £000	Total £000
Revenue (by market)					
Commercial vehicles	667	2,778	-	-	3,445
Outdoor power equipment	37	-	-	-	37
Off-highway	183	-	-	-	183
Automotive	250	155	-	-	405
Other	77	-	-	470	547
	1,214	2,933	-	470	4,617
Direct costs	(189)	(71)	-	(344)	(604)
Gross profit	1,025	2,862	-	126	4,013
Other operating costs	-	-	(4,666)	-	(4,666)
Segmental contribution/(loss)	1,025	2,862	(4,666)	126	(653)

Other operating costs not allocated to segments (1,796)

Operating loss as reported in Income Statement **(2,449)**

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

Note 2. Other revenue and costs not allocated to business segments.

Significant customers

The following revenues are attributable to significant customers:

	Group 31 March 2010 £000	Group 31 March 2009 £000
European Truck and Bus Manufacturer	1,251	1,507
Allison Transmission, Inc	6,230	1,938

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

8. Trade and other receivables

	Group 31 March 2010 £000	Group 31 March 2009 £000
Non-current assets		
Loan to the Joint Venture	457	-
Amounts owed by subsidiary undertakings	-	-
Total non-current assets	457	-
Current assets		
Trade receivables	61	419
Other receivables and accrued income	187	153
Prepayments	202	246
Total current assets	450	818

There is no provision for impairment of receivables at 31 March 2010 (2009: nil) and all receivable balances are within normal due dates for collection.

9. Cash and cash equivalents

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

	Group 31 March 2010 £000	Group 31 March 2009 £000
Cash	3	547
Sterling cash deposits	12,982	14,257
Cash held in the Joint Venture	107	171
Total	13,092	14,975

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 0.87% (2009: 3.20%) and the weighted average time for which the rate is fixed is 1.31 months (2009: 0.70 months).

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+.

10. Liabilities

	Group 31 March 2010 £000	Restated* Group 31 March 2009 £000	Restated* Group 31 March 2008 £000
Non-current liabilities			
Share of loan to Infinitrak LLC	457	-	-
Current liabilities			
Trade payables	199	634	180
Social security and income tax	-	94	88
Accruals	755	953	860
Deferred Income	1,706	3,460	1,705
Total	2,660	5,141	2,833

*See note 12 for an explanation of prior year adjustments.

11. Share capital

Group	31 March 2010		31 March 2009	
	Number	£000	Number	£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	161,734,912	16,173	160,691,263	16,069

Group	31 March 2010		31 March 2009	
	Number	£000	Number	£000
Ordinary shares of 10 pence each				
At beginning of year	160,691,263	16,069	146,082,973	14,608
Shares issued as a result of LTPSP vesting	1,043,649	104	-	-
Shares issued to Allison Transmission, Inc	-	-	14,608,290	1,461
At end of year	161,734,912	16,173	160,691,263	16,069

12. Prior year adjustment

Torotrak has historically accounted for bonus payments to employees based on a policy of recognising a charge to the income statement for payments made during the financial year. However, Torotrak's bonus schemes have increasingly become aligned to specified bonus criteria that can be measured at year end. This allows reasonably accurate estimates to be made of the bonus payments that are due in relation to that financial year's performance.

In order to provide improved information to users of the Financial Statements, and in consultation with our auditors, PricewaterhouseCoopers LLP, we have accordingly changed our accounting policy for bonus payments from a 'paid basis' to an 'accruals basis'.

Impact on Balance Sheets

This change in policy requires an adjustment as shown below to the Balance Sheets, which reflect the impact of creating additional accruals which would have built up progressively over the past 10 years had we accounted for bonuses on the new basis.

Creditors falling due within one year	£000
Balance at 1 April 2008	2,525
Adjustment to accruals	308
Restated balance at 1 April 2008	2,833
Balance at 31 March 2009	4,833
Adjustment to accruals	308
Restated balance at 31 March 2009	5,141
Net assets and total equity	£000
Balance at 1 April 2008	12,343
Adjustment	(308)
Restated balance at 1 April 2008	12,035
Balance at 31 March 2009	13,493
Adjustment	(308)
Restated balance at 31 March 2009	13,185

Impact on reported profit and loss

The impact on year on year disclosures of profitability and salary costs is immaterial in terms of the five-year financial record, since the levels of bonuses paid in a year have been very similar to the bonuses that would have been charged on an accruals basis. However the new policy will going forward ensure a better matching of costs to the performance period under review.

13. Post balance sheet events

On 12 May 2010, the Group acquired a 15% equity stake in Rotrex AS and formed a 50:50 UK based joint venture with Rotrex. These arrangements collectively involved £500k of equity and loan funding and are described in section 3.4 of the Business review above.

14. Financial record

For the years ended 31 March

	2010 £000	2009 £000	2008 £000	2007 £000	2006 (i) £000
Revenue	7,644	4,617	3,685	2,691	2,054
Profit/loss on ordinary activities before taxation	197	(1,987)	(2,397)	(3,227)	(6,196)
Profit/(loss) on ordinary activities after taxation for the financial year	387	(1,788)	(2,130)	(2,899)	(5,762)
Basic earnings/(loss) per share (pence)	0.24	(1.22p)	(1.57p)	(2.43p)	(4.91p)
Diluted earnings/(loss) per share (pence)	0.23	(1.22p)	(1.57p)	(2.43p)	(4.91p)
Cash and cash equivalents at year end	13,092	14,975	11,549	4,307	7,467
Net cash (outflow)/inflow from operating activities	(1,121)	1,011	526	(3,515)	(4,269)

Note (i) As restated for proportionate consolidation of Infnittrak.

- ends -