Oxford Instruments plc Annual Report and Accounts 2005

A big future for small science

Summary of Results

	2005 £m	2004 As restated £m
Orders *	**147.0**	144.2
Turnover *	**156.5**	147.6
Operating profit, before exceptional items and goodwill amortisation *	**7.4**	7.9
Group operating profit	**0.5**	5.7
Profit before tax, before exceptional items and goodwill amortisation *	**7.9**	7.8
Profit before tax	**3.6**	11.9
Net cash	**26.5**	20.7
Shareholders' funds	**82.0**	92.1

	2005 pence per share	2004 As restated pence per share
Earnings, before exceptional items and goodwill amortisation *	**10.9**	12.0
Earnings	**3.3**	21.3
Dividends	**33.4**	8.4
Net assets	**169.7**	191.5
Employees at year end	**1,295**	1,507

* From continuing wholly owned operations

Q: Why is small going to be big?

A: At Oxford Instruments small means very small, down to the atomic and molecular level. Here distance is measured in nanometres. One nanometre is a millionth of a millimetre, or the distance spanned by a few atoms. Manipulation of matter at this minute scale has the potential to revolutionise many industries. The UK Government Committee on Science and Technology estimates that a global industry operating at this atomic and molecular level (the nanotechnology industry) will be worth one trillion dollars by 2015. There is huge potential for Oxford Instruments to provide the tools needed to fully exploit the opportunities.

The last year has been one of immense change for Oxford Instruments. We have disposed of our Medical business, continued to address our operational performance, launched significant new products and strengthened our senior management team.

The successful sale of the Medical business to VIASYS Healthcare Inc. enabled us to return capital to shareholders through the payment of a special dividend of £11.8 million as well as supporting a special contribution of £6.0 million to the Oxford Instruments UK pension scheme. The remainder of the proceeds, after costs, is being held for reinvestment in the business.

With the disposal of the Medical business, the organisation is now highly focused on the provision of tools for new high growth, high technology industries such as nanotechnology and molecular bioscience.

We are at an important moment for Oxford Instruments. With an efficient operating base, a focused portfolio and new products coming through to market, it is time to accelerate the pace of growth. In order to achieve this, the Board decided to change the leadership of the business and in November 2004 I took over day-to-day control of the business until the beginning of the new financial year, when Jonathan Flint was appointed as Chief Executive. I welcome Jonathan to the Group and I look forward to working with him as he leads and grows our business from its established operating base. As a first step, he and I have worked on a revised and clarified strategy for the business which is outlined in the Strategy Statement.

Group turnover of the continuing operations for the year to 31 March 2005 was £156.5 million (2004 £147.6 million). Pre-tax profit for the continuing operations before exceptional items and goodwill amortisation was £7.9 million, up £0.1 million on the previous year. Both turnover and operating profit were significantly impacted by the overall change in exchange rates during the year. If the same exchange rates had applied during the year to 31 March 2005 as in the previous year, turnover and pre-tax profit before goodwill amortisation and exceptional items of the continuing operations would have been £9.1 million higher at £165.6 million and £1.9 million higher at £9.8 million respectively. The businesses acquired during the year contributed £7.5 million and £0.7 million to turnover and operating profit before goodwill amortisation respectively. The discontinued Medical business made an operating loss before exceptional items of £0.1 million compared with an operating profit of £0.1 million in the prior year.

Within Analytical operating profit, before exceptional items and goodwill amortisation, increased to £6.6 million from £3.7 million. Our Microanalysis and Industrial Products businesses continued to move ahead showing the fifth successive year of profit growth. Our Plasma Technology business is thriving following the successful integration of the VG Semicon business and our X-ray Technology business produced significant growth in turnover and profit driven by the buoyant market for environmental monitoring tools.

At Superconductivity operating profit, before exceptional items and goodwill amortisation, fell from £4.2 million to £0.8 million primarily due to lower magnet sales and adverse raw material and foreign exchange movements. Orders this year were down 5% on last year reflecting the continuing reduction in business from a significant customer. The NMR magnet business continues its transformation programme. A series of business partnerships are being developed in order to return this part of the business to full financial health. The Physical Science business, which provides specialised magnet and cryogenic systems to leading researchers throughout the world, has lost money in recent years but is now close to break-even. Our Superconducting Wire business in the USA continues to perform well. The monolith wire quality problem, which was disclosed in the Interim Report in November 2004, has been fully provided for as an exceptional cost. The matter is now closed and the customer relationship strengthened. A new high performance superconducting wire has been developed and is now being introduced into our high field magnets.

Earnings per share from our continuing operations, before exceptional items and goodwill amortisation, were 10.9p (2004 12.0p) and the Board recommends a final dividend of 6.0p, making the total dividend of 8.4p for the year unchanged from last year. This excludes the special interim dividend of 25.0p which was paid in March 2005.

In this year of change the progress we have made towards our goals is due to our talented workforce and I would like to thank all of our employees for their hard work in delivering a creditable improvement in performance.

During the year Mike Hughes joined the Board as a Non-Executive Director. As Oxford Instruments enters a new era, Mike brings strengths to our Board with his broad operational experience allied with sound technical understanding.

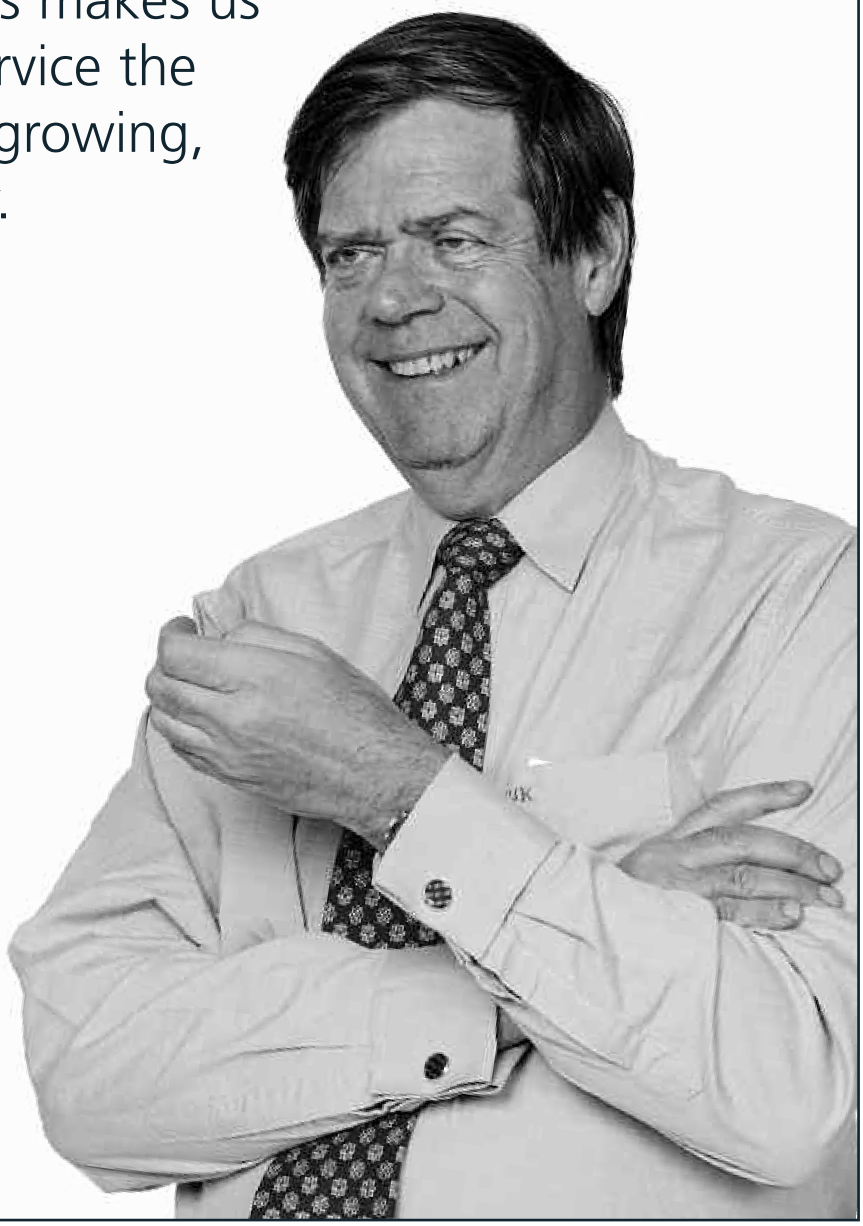
Looking ahead, we have selected a number of value-enhancing initiatives which are outlined in the Strategy Statement. We have established a sound operating base and we will continue to focus on improving profitability and returns across our businesses by building on the momentum generated over recent years whilst at the same time growing our turnover.

Execution of this strategy will involve a level of investment that will impact the financial results of the Group for the next two years. In the current year we estimate that there will be incremental product development expenditure of up to £5.0 million. Meanwhile our existing trading activities have a sound base from which to move forward steadily. Over the next few years the emerging markets coupled with our talents and infrastructure will provide significant opportunities to drive the business forward and increase value for our shareholders.

Nigel Keen Chairman
3 June 2005

Q: Why is Oxford Instruments **the** company for tools at the atomic and molecular scale?

A: Our track record demonstrates our technical expertise. With the disposal of our Medical business, we are now a Group unified by our capability in providing tools for operations at the smallest scale. This makes us uniquely placed to service the demands of this fast growing, revolutionary industry.



Nigel Keen Chairman

Chief Executive's Introduction

I am delighted to have been appointed to lead Oxford Instruments through the next important phase in its strategic development. Since joining the Group, I have spent my time getting to know our senior management and local management teams as well as speaking with customers and key partners. I have also met many of our staff in person and through our internet communication systems and have been encouraged by feedback from around the world. This two-way dialogue has been invaluable in helping me shape my thoughts about the business.

I have visited our operations and customers in the UK, North America and the Far East. I have been enormously impressed by the quality of our people and the great respect that the Oxford Instruments brand carries throughout our global customer community. The Group's technological and human assets are outstanding and, when coupled with growing demand in emerging high technology industries, offer a unique and valuable capability. Nanotechnology, molecular bioscience and environmental monitoring provide significant growth opportunities for Oxford Instruments. A key task for me will be to manage smoothly and successfully the transition between old product lines and the new business model described in the Strategy Statement. Going forward, we will be running our business with a set of aims and objectives concentrating on strategic repositioning, customer focus and new product innovation.

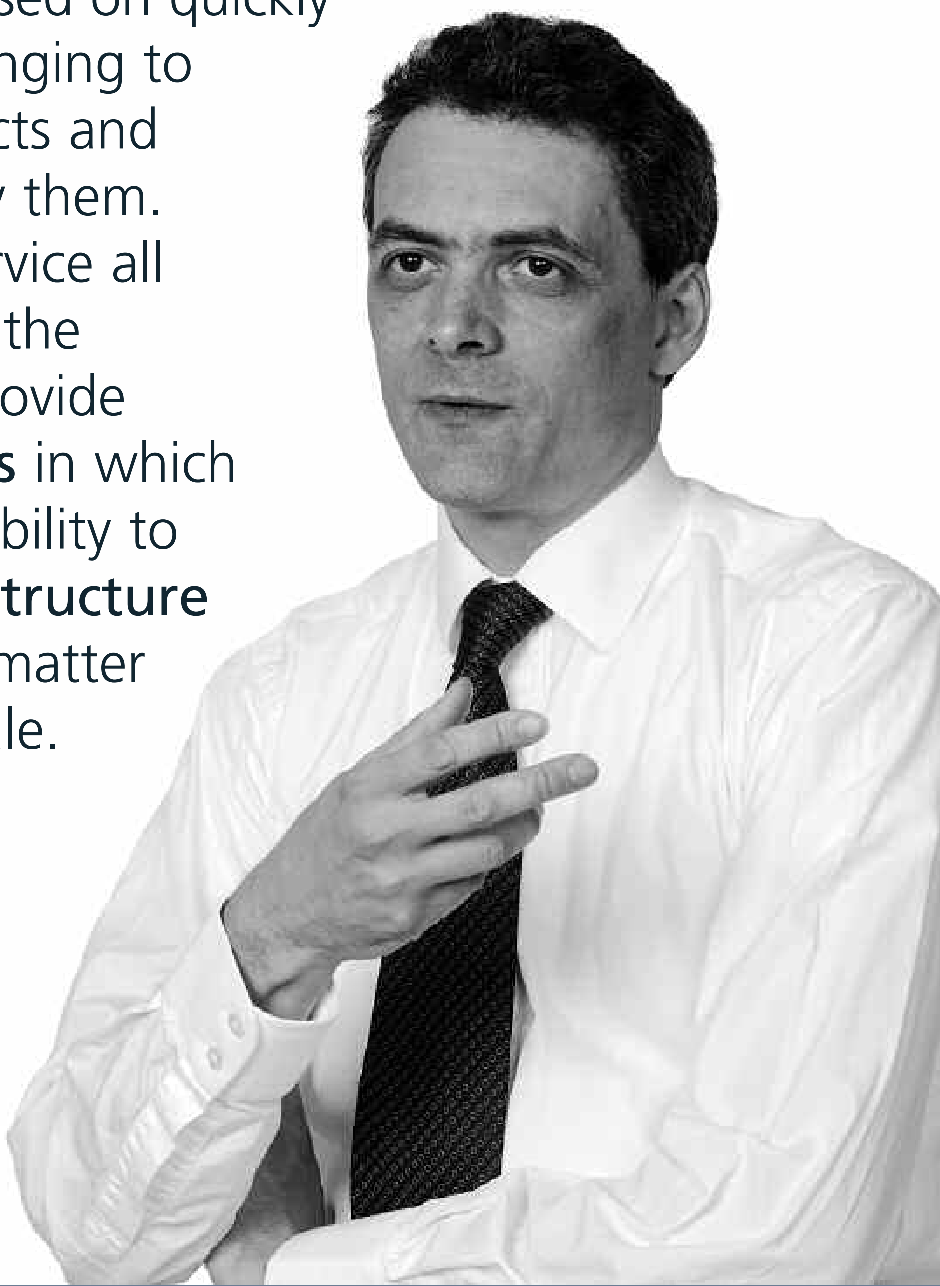
My priorities for 2005 are to refine, develop and implement the Group strategy by harnessing the strengths and resources of the business and by selective acquisitions. Oxford Instruments has an excellent technological heritage but our position in the value chain has sometimes hampered our ability to realise sufficient value from this technology. Our new strategic focus will allow us to leverage our capability in analytical instruments to provide direct to end users a new generation of tools for nanotechnology, molecular bioscience and environmental monitoring. At the same time we will continue our initiatives to improve efficiency and profitability by further use of low-cost production in Eastern Europe and the Far East, including our new manufacturing facility in China.

Most importantly, I look forward to delivering shareholder value through the successful implementation of our strategy. This will be done by uniting the Oxford Instruments team behind our common objectives of growth through customer service and new product innovation.

Jonathan Flint Chief Executive
3 June 2005

Q: How will our resources be harnessed to realise the potential of the nanotechnology revolution?

A: Our customers' needs are the driving force behind our activities. Our customers want tools to work at these small scales and our skills and resources are focused on quickly and effectively bringing to market the products and solutions to satisfy them. We are able to service all three branches of the technology. We provide the **environments** in which to work and the ability to **understand the structure** and **manipulate** matter at the smallest scale.



Jonathan Flint Chief Executive

With the sale of the Medical business, much organisational complexity has been removed and the focus is now on commercialising our intellectual property and technological know-how in the development of valuable tools for new industrial and scientific markets. The continuation of the wide ranging efficiency programme has created a solid platform from which to grow the business and we are now ready to develop and take to market the products which will deliver sustainable growth for the benefit of all of the Group's stakeholders.

Following internal reviews and external studies of our respective strengths and market opportunities, we have refocused our future strategy on building upon our key strength which lies in our deep understanding of the world at the atomic and molecular level. Our business model reflects the convergence between the physical and biological sciences, meaning that an overlapping set of tools can serve both markets.

We will become a leading provider of a new generation of tools and systems for both the physical and bioscience sectors, based on our ability to observe and manipulate matter at the smallest scale. From chemical and material analysis, to molecular structure and atomic deposition, we will expand our offering of tools focused on comprehensive solutions to atomic and molecular level problems. We will build on our capability to create specialised environments such as ultralow temperature or high magnetic fields, to provide systems to observe and characterise matter at very small scales, and to start manipulating and building structures at the atomic level. As well as developing new processes and environments we will also actively seek to grow our customer support revenues to provide stable long term earnings in order to match the more volatile cashflow associated with new product introduction.

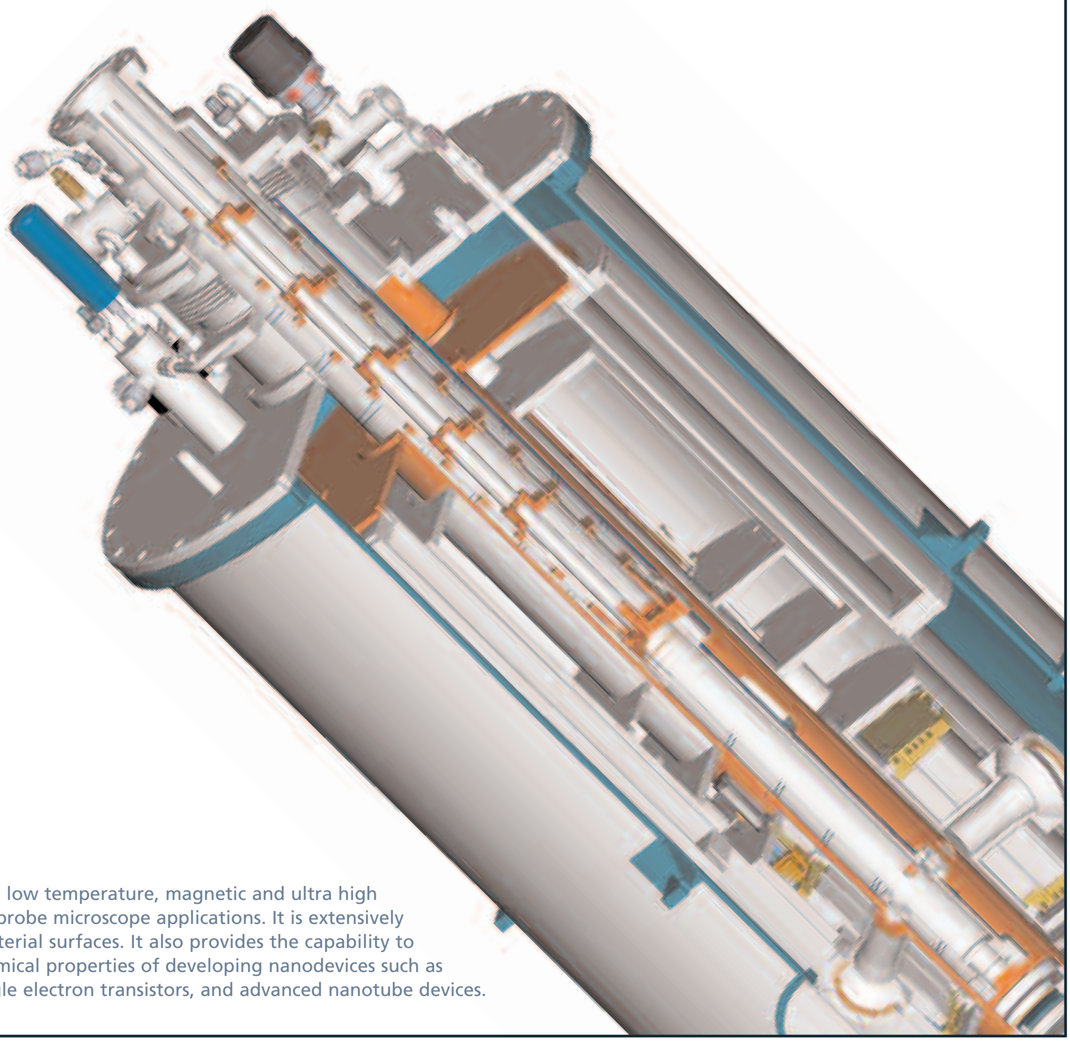
There are many areas of outstanding technical competence within Oxford Instruments. These will be brought together as we operate increasingly as one company. For example, we will continue to generate competitive advantage though integrated wire and magnet design and will also bring the instrumentation skills in our Analytical instruments business to bear elsewhere in the organisation. This will facilitate our move towards providing total solutions direct to end users. This growth strategy will be coupled with an ongoing focus on operational improvement, using low cost sources of production. We already have extensive skills in serving the nanotechnology, molecular bioscience and environmental monitoring markets and we plan to invest in growing our capabilities both organically and by acquisition. Because we are focused on providing tools as distinct from nano-engineered products, Oxford Instruments will be well positioned to benefit from the early stages of the development of this new industry.

With this clear vision of the future direction for the Group we will regularly report on the progress made by the business against this strategic framework.

Nigel Keen Chairman
Jonathan Flint Chief Executive
3 June 2005

Q: What **environments** do our customers need to begin their operations in the world of nanotechnology?

A: Extremely cold temperatures, intense vacuum and very high magnetic fields are typically needed to operate at these very small scales. These are precisely the capabilities that Oxford Instruments offers to its customers.



The Nanostat provides the ultimate low temperature, magnetic and ultra high vacuum environment for scanning probe microscope applications. It is extensively used for the study of atoms on material surfaces. It also provides the capability to characterise the electronic and chemical properties of developing nanodevices such as quantum dots, quantum wires, single electron transistors, and advanced nanotube devices.

Following the sale of the Medical business, the Group consists of two main areas, Analytical and Superconductivity. Analytical includes Industrial Products (environmental and quality control instruments), X-ray Microanalysis (identification of chemical elements and crystalline structures), Plasma Technology (plasma etching and deposition equipment) and X-ray Technology (low power X-ray tubes and sources). Superconductivity includes Magnet Technology (NMR, ICR and MRI magnet systems), Physical Sciences (magnet and cryogenic systems for applied research customers), Molecular Biotools (Dynamic Nuclear Polarising systems to enhance NMR sensitivity), Superconducting Wire (wire for superconducting magnets), MRI magnet service (cryogenic maintenance of hospital MRI magnets) and Austin Scientific Technology (cryogenic pumps and compressors).

Since the end of the year a new business area has been formed, Oxford Instruments Innovation, which includes the Molecular Biotools activity that was previously part of Superconductivity together with other new instrument projects.

Analytical
Orders and turnover for the year were £67.3 million (2004 £60.6 million) and £69.8 million (2004 £58.5 million) respectively. Operating profit before exceptional items and goodwill amortisation improved to £6.6 million (2004 £3.7 million).

Our Industrial Products business continues to grow. The Metorex business acquired in September 2004 has now been integrated, is operating profitably and was earnings enhancing in the year. Metorex, as well as providing advanced sensor technology, brings to our product offerings hand-held EDXRF (energy dispersive X-ray fluorescence) and optical emission instruments with particular application in the environmental and scrap metal sorting markets. This acquisition is consistent with the market trend towards hand-held instrumentation. The ‘X-Strata960’ instrument has been launched for the quality control measurement of metal coatings in the electronics and metal finishing industry. We have also begun to transfer the manufacture of our range of hand-held coating thickness products from Chicago to our facility in Shanghai.

The market for our X-ray Microanalysis business, providing analytical instruments for electron microscopes, remained steady. The convenience and cost advantages of our recently introduced ‘INCADryCool’ non liquid nitrogen sample cooler are gaining increased recognition among our customers and several other major new product development programmes are underway. In addition, with the acquisition of HKL Technology A/S in April 2005, the product portfolio has been significantly enhanced with the addition of the best in class EBSD (electron backscatter diffraction) instrumentation. With our existing market leading EDS (energy dispersive spectroscopy) and WDS (wave length dispersive spectroscopy) systems we now offer the best combination of elemental analysis systems in the market for use with electron microscopes.

Our Plasma Technology business has shown good profitability in the year despite no significant upturn in the compound semiconductor market. A vigorous programme of product introduction based on extensive customer research has been started and the benefits of this are expected in the next financial year. Particular developments to produce the equipment for manufacturing high brightness LEDs (light emitting diodes) are under way. The market for high brightness LEDs is growing with widespread utilisation already being seen in the automotive industry. These products are very energy efficient which is expected to lead to their increasing use in the domestic market. The VG Semicon molecular beam epitaxy business acquired in October 2003 has now been integrated into the Plasma Technology facility in Yatton and the costs of closing the East Grinstead factory, which amounted to £1.0 million, have been included within exceptional costs.

Our X-ray Technology business grew strongly last year on a broadening customer base and with especially strong sales from low power X-ray sources. This growth was in part driven by increasingly demanding new environmental legislation and although last year may have been exceptional in this regard, we are well positioned to exploit this growth area in future.

Superconductivity
Orders and turnover for the year were £79.7 million (2004 £83.6 million) and £86.7 million (2004 £89.1 million) respectively. Operating profit before exceptional items and goodwill amortisation declined to £0.8 million (2004 £4.2 million). As previously announced the business took steps to reduce its UK cost base in both June 2004 and in March 2005 and the redundancy costs of £1.2 million have been included within the exceptional costs for the year.

As previously signalled, the Magnet Technology business had a poor year due to lower than expected volumes from Varian, its largest customer, although good progress has been made on reducing costs by the introduction of lean manufacturing techniques and low cost sourcing initiatives. For many years, Oxford Instruments has maintained a sound business by providing NMR magnets to systems integrators which use the magnets as part of their NMR systems sold to end users. However recently the market has polarised into the supply of high field, technologically demanding magnets and low field, commodity magnets. In this latter market, the system integrators are tending to source low field magnets in-house. In order to ensure an orderly transition to this new way of doing business we have entered into a new three year contract with Varian for the supply of magnets. This contract took effect from 1 April 2005.

Oxford Instruments remains the world leader in high field magnets and has recently broadened the range of these magnets based on its newly developed high performance ‘RRP’ superconducting wire. These include the ‘Actively Shielded’ 800 MHz magnet, which also uses new coil structures. This new technology reduces stray fields significantly which in turn reduces the space our customers need to install systems. The first of these new 800 MHz magnets is now at field. Our ‘ActivelyCooled’ 600 MHz and 700 MHz magnets have also progressed well with prototype testing at our customers’ premises due to start shortly. In addition we have successfully installed six of our 900 MHz ‘Discovery’ magnets. Our strategy is now to focus on high value magnets with clear competitive advantage and to exploit them where possible as end user systems either on our own or with others.

Q: How do our tools enable customers to **understand the structure** of the world at its finest scale?

A: Oxford Instruments provides a growing family of analytical instruments, used alone or in conjunction with electron microscopes, to enable our customers to see and understand at an ever-decreasing scale.

The unique design of the Nordlys II EBSD Detector allows short scanning electron microscope working distances and higher spatial resolutions in grain orientation maps. Grain sizes of less than 20 nanometres can now be measured; a human hair is 50,000 nanometres wide.

The Physical Science business moved towards break-even during the year against stable markets for its refrigeration and spectroscopy products. It has successfully launched a number of new cryo-free products, which offer significantly improved ease of use for customers as they do not require filling with cryogens after installation. The level of demand for large customer specific magnets for government sponsored research remained steady. We continue to do well on high-visibility science programmes and in particular we have won a number of orders with the National High Magnet Field Laboratory in Florida.

The Molecular Biotools business was formed in April 2004 within the UK Superconductivity business. It was created to exploit the technology licensed exclusively from GE Healthcare to develop certain applications of a novel magnet-based sample preparation technique in the life sciences market. The first major project is to produce a DNP (dynamic nuclear polarisation) preparation unit to allow faster NMR analysis. This new system, branded 'Hyper-Sense', attracted significant interest at the annual ENC (Experimental NMR Conference) tradeshow in April 2005. The programme is on track and we remain confident about the prospects for the new product. Molecular Biotools acquired Resonance Instruments in September 2004. The skills and intellectual property acquired are making a significant contribution to the DNP project as well as giving us capability that can be used in the low cost end user NMR instrument markets. The acquisition was earnings enhancing in the year.

Superconducting wire volumes remained strong, based on growth in the market for hospital MRI magnets, but the profitability of the business was adversely affected by sales price erosion and rising raw material prices, particularly copper. The monolith wire quality problem, which was disclosed in the Interim Report in November 2004, has been fully provided for as an exceptional cost. The matter is now closed and the customer relationship strengthened. We have developed a new highly efficient 'RRP' wire which has been tested successfully in a number of new Oxford Instruments magnets. The International Thermonuclear Energy Reactor (ITER) project, an internationally backed programme to try to generate huge quantities of power from sea water, is expected to receive formal governmental go-ahead shortly. This project will provide an opportunity for significant wire supply in the coming years. We have supplied materials under the qualification programme and have met the required specification. We plan to invest in new plant to support this activity and the rest of the wire business.

The MRI magnet service business grew last year reflecting the steady growth of the installed base in the USA. As the organisation grows it is able to offer an increasingly attractive service to its customers.

The Austin Scientific cryogenic pump and compressor business had a steady year and sees the opportunity for sales growth and low cost manufacturing in China.

Discontinued Business

Following the restructuring of the Medical business over the last few years, it was sold to VIASYS Healthcare Inc. on 1 March 2005 and has been treated as a discontinued business in the results for the year. The sale will now allow us to focus on the growth and development of our Analytical and Superconductivity businesses.

Group-led Initiatives

Customer focus

Since November 2004 we have undertaken a number of programmes to ensure that the Group becomes more customer focused, concentrating on providing products and services which present innovative solutions to customer problems. In particular we ensure that the 'Voice of the Customer' plays a key part in our new product introduction and customer service activities. Coupled with these customer focus initiatives the Group has set a target for increased service revenues. As part of our intent to become more customer facing the focus of our existing trading activities is increasingly on new product introduction.

Innovation

Reflecting the Group strategy as outlined in the Strategy Statement a small new management team, Oxford Instruments Innovation, has been formed reporting to the Chief Executive to drive forward the various new investment initiatives focused on the markets we address. This team will recommend, implement and control the incremental revenue investment programmes designed to generate products capable of creating growth and profits which will be significant in Group terms.

Manufacturing

Our focus on lean manufacturing continues and our initiatives during the year have cut the lead-time in some products by half. During the year we won a Highly Commended National Training Award for our lean manufacturing training programme.

Low cost sourcing

We have increased the amount of product and components sourced from low cost regions of the world, particularly China. We opened a service centre and factory in Shanghai in August 2004. This is already providing high quality service to our Chinese customers and local assembly of some of our hand-held products has been started. Continued growth in the proportion of our value creation undertaken in China is expected.

Japan

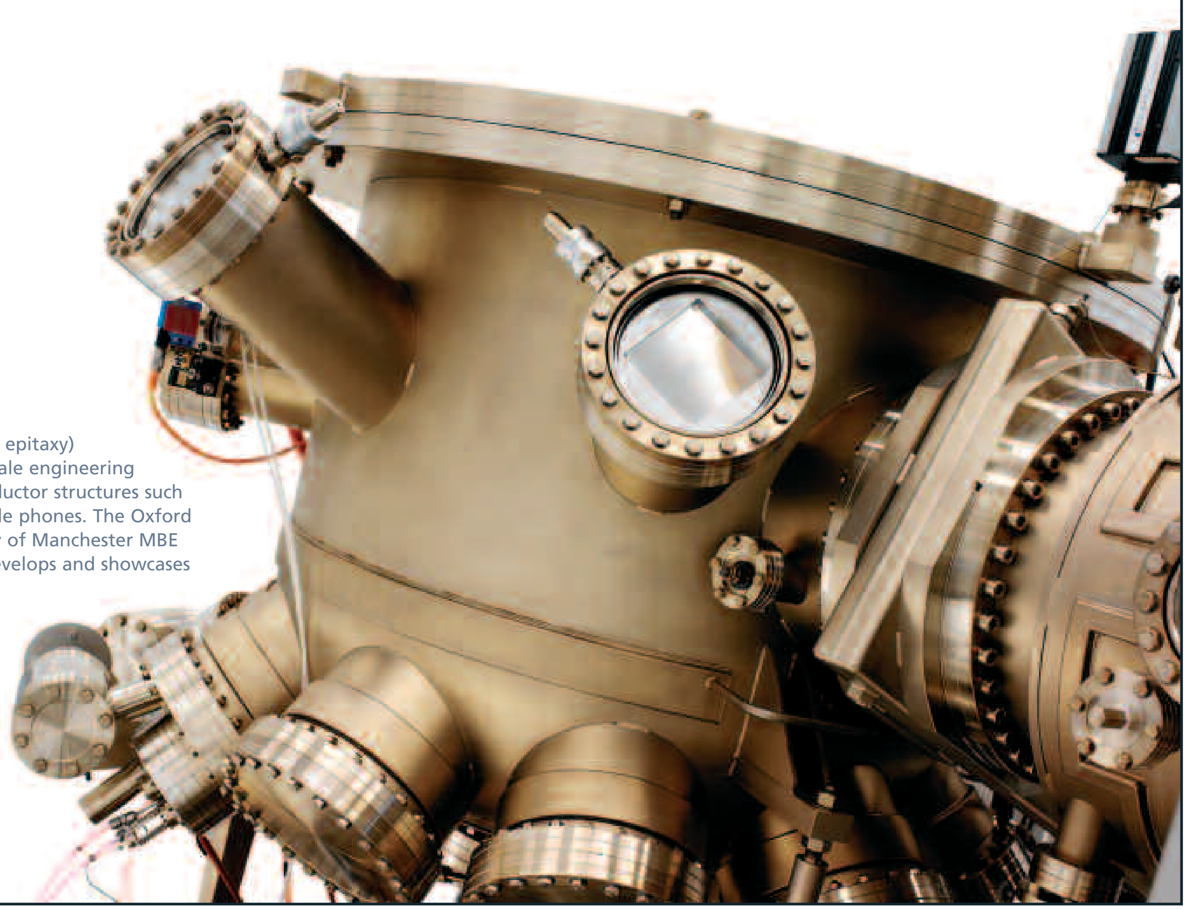
The 'Sir Martin Wood Prize' ceremony was again held in Japan and has become established as a significant annual event in the Japanese scientific research community calendar. The prize is awarded for the most promising post graduate research undertaken in the field of condensed matter science.

Future Investment

As we move forward to deliver our strategy we will be making considerable investment, both in product development costs and in the pursuit of product infill acquisition opportunities. These investments will be geared to restoring sales growth to the business and to deliver increasing profits, which are expected to enhance shareholder value.

Q: How can our customers **manipulate** matter atom by atom using Oxford Instruments' tools?

A: Manipulation at the atomic scale is facilitated by the unique process capability of our semiconductor etch and deposition systems. This ability is vital in the creation of the nanoscale structures which will produce the consumer electronics products of today and tomorrow.



MBE (molecular beam epitaxy) enables nanometre scale engineering of advanced semiconductor structures such as those used in mobile phones. The Oxford Instruments/University of Manchester MBE Facility (illustrated) develops and showcases these capabilities.

Trading results

Group turnover for the year to 31 March 2005 of £182.1m was £0.2m lower than the previous year. This total included £156.5m from the continuing operations for the year (2004: £147.6m), the increase reflecting the impact of the acquisitions in the period. Turnover for the discontinued Medical business for the 11 months until disposal on 1 March 2005 was £25.6m, against £34.7m for the twelve months in the prior year. Pre-tax profit for the continuing operations before exceptional items and goodwill amortisation was £7.9m, up £0.1m on the previous year. The Group operating profit of the continuing wholly-owned operations before exceptional items and goodwill amortisation, was £7.4m (2004 £7.9m), down 7% from the previous year. The discontinued Medical business made an operating loss before exceptional items of £0.1m compared with an operating profit of £0.1m in the prior year.

Both turnover and operating profit were significantly impacted by the overall change in exchange rates during the year. If the same exchange rates had applied during the year to 31 March 2005 as in the previous year, turnover and operating profit before exceptional items and goodwill amortisation of the continuing operations would have been £9.1m higher at £165.6m and £1.9m or 25% higher at £9.3m respectively, an increase in operating profit of £1.4m over prior year. The businesses acquired during the year contributed £7.5m and £0.7m to turnover and operating profit before goodwill amortisation respectively.

The results summarised by business are set out in Note 1 on the Financial Statements. Despite the increase in turnover of the continuing operations there was a fall in gross margin from 30.4% to 29.5% reflecting adverse exchange rate movements, sales price erosion in specific markets and higher raw materials prices, particularly copper.

For the continuing operations, sales to overseas customers of £138.6m (2004 £128.1m), including sales by overseas businesses of £93.4m (2004 £85.9m), represented 89% (2004 87%) of the Group turnover of the continuing operations. UK exports for the continuing operations of £71.2m (2004 £74.2m) produced a net benefit to the UK balance of payments of £52.2m (2004 £55.9m), after deducting imports of £19.0m (2004 £18.3m). Turnover by region is shown in the chart on the page opposite.

Profitability

Although the operating assets of continuing businesses reduced by £2.6m from £54.8m to £52.2m the return on operating assets reduced marginally from 14.4% to 14.2% reflecting the decline in the return on sales from 5.4% to 4.7%.

Accounting policies

The policies applied in preparing the Financial Statements are set out on pages 36 to 37. The Group adopted UITF 38 ‘Accounting for ESOP Trusts’ during the year. The effect of UITF 38 has been to recognise the net carrying value of shares held by the trust as a deduction from shareholders’ funds rather than as a fixed asset investment.

The main areas of judgement in applying the accounting policies relate to the estimation of the cost to complete on long term contracts, which represent less than 2% of annual turnover, and to the assessment of the risk of stock obsolescence. The appropriateness of these policies is reviewed regularly.

Going concern

The Financial Statements have been prepared on a going concern basis, based on the Directors’ opinion, after making reasonable enquiries, that the Group has adequate resources to continue in operational existence for the foreseeable future.

Exceptional items and goodwill amortisation

Exceptional items for the year of £5.5m related to continuing activities and included redundancy costs of £1.2m incurred as the Superconductivity business reduced its cost base, costs relating to a specific quality problem at the US superconducting wire manufacturing plant of £1.5m, restructuring costs of £1.1m following the acquisition of Metorex International Oy (‘Metorex’) and Resonance Instruments Limited (‘Resonance’), costs of £1.0m relating to the transfer of the VG Semicon business from East Grinstead to Plasma Technology’s facility in Yatton and £0.9m relating to the replacement of the Chief Executive. Offsetting these costs was an exceptional gain of £0.2m on the sale of a freehold property in Eynsham.

Amortisation of goodwill amounted to £1.1m (2004 £0.7m) an increase over last year, reflecting additional goodwill amortisation following the acquisition of both Metorex and Resonance in the year and a full year charge relating to VG Semicon acquired in the previous year. The average period over which goodwill is being amortised is 9 years.

Acquisitions and disposals

In September 2004 the Group acquired 89.5% of the share capital of Metorex, based in Espoo, Finland. A further 9.6% of the share capital had been acquired by 31 March 2005. A total cash consideration of £4.0m was paid during the year with a further £1.3m due to be paid in instalments in May 2005 and June 2006. Metorex is a supplier of advanced instruments and key components for chemical analysis and rapid elemental identification, primarily using X-ray technology.

In September 2004 the Group acquired the entire share capital of Resonance based in Witney, Oxfordshire. Resonance is a manufacturer of instruments used for quality control and research applications using low resolution nuclear magnetic resonance as well as components and subsystems for magnetic resonance imaging systems. A cash consideration of £1.8m was paid on completion with up to a further consideration of £1.3m payable in cash in the next two years.

In March 2005 the Group sold its Medical business to VIASYS Healthcare Inc for £24.0m. The resultant profit on disposal was £6.0m before adjusting for goodwill previously written off to reserves.

Turnover

2005	£156.5m
2004	£147.6m
2003	£150.3m

Continuing wholly owned operations.

Pre-tax profit

2005	£7.9m
2004	£7.8m
2003	£7.0m

Continuing wholly owned operations before exceptional items and goodwill amortisation.

Contribution to improvement in pre-tax profit

2004	£7.8m
Analytical	£2.9m
Superconductivity	£(3.4)m
Interest	£0.6m
2005	£7.9m

Continuing wholly owned operations before exceptional items and goodwill amortisation.

Operating return on operating assets

2005	14.2%
2004	14.4%
2003	13.3%

Continuing wholly owned operations before exceptional items and goodwill amortisation.

Net cashflow from operating activities

2005	£7.1m
2004	£17.8m
2003	£14.9m

Net cash

2005	£26.5m
2004	£20.7m
2003	£3.3m

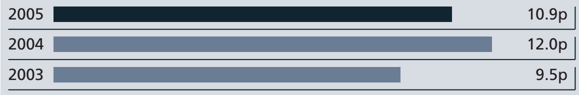
Group turnover by region

	2005	2004	2003
North America	£58.5m	£64.9m	£66.2m
Japan	£34.4m	£25.2m	£23.2m
Continental Europe	£25.3m	£21.7m	£21.8m
Rest of Far East	£17.9m	£13.7m	£14.3m
UK	£17.9m	£19.5m	£20.6m
Rest of World	£2.5m	£2.6m	£4.2m

Continuing wholly owned operations.

Martin Lamaison Financial Director

Earnings per share



Continuing wholly owned operations before exceptional items and goodwill amortisation.

Interest
Total net interest receivable was £0.5m, compared to net interest payable last year of £0.1m, ignoring the interest in the joint venture. This reflected the improved net cash position and higher sterling interest rates.

Taxation
The underlying tax rate on the profits of continuing operations after goodwill amortisation but before exceptional items was 41% (2004 30%). The key factors influencing the rate of tax are the UK corporate tax rate of 30%, the increase in goodwill amortisation and higher tax rates in overseas jurisdictions such as USA, Germany and Japan. The Group has significant tax losses in the UK available to set off against future taxable profits from certain business streams. A deferred tax asset of £3.8m has been recognised against timing differences and unused capital allowances. No deferred tax asset has been recognised against past UK tax losses.

Employees
The number of employees at 31 March 2005 was 1,295 compared with 1,507 at 31 March 2004, a reduction of 14%. The number of additional employees joining the Group with the Metorex and Resonance acquisitions were more than offset by the reduction in headcount following the Medical business disposal and the restructuring at Superconductivity.

Exchange rates
The principal exchange rates used to convert foreign currencies are set out in Note 34 on the Financial Statements.

Cashflow
The Group began the year with net cash of £20.7m and ended the year with net cash of £26.5m, an inflow of £5.8m. Principal contributors to the inflow were £24.0m from the disposal of the Medical business offset by the acquisitions of Metorex and Resonance of £5.8m and the special dividend to shareholders of £11.8m. Within the operating cash inflow of £7.1m were exceptional cash outflows of £4.3m.

Balance sheet
The year end net cash position of £26.5m was made up of cash and short-term deposits of £29.7m offset by bank loans and overdrafts of £3.2m.

Net operating assets, excluding goodwill, of £66.6m reported last year fell by £14.4m to £52.2m. This reduction was primarily due to the disposal of the Medical business, partially offset by the acquisitions of Metorex and Resonance. Net working capital of the continuing operations, excluding net cash, taxation, non-operating assets and accrued dividends, decreased by £1.7m to £23.6m. Overall the net working capital to sales ratio reduced from 17.1% to 14.4% on a like-for-like basis. Stock reduced from prior year by £4.6m, however, taking into account the acquisitions and disposals in the year, stock levels were unchanged. Debtor days for the continuing businesses increased from 46 days to 51 days.

An analysis of tangible fixed assets is shown in Note 13 on the Financial Statements. The decrease in net book value of fixed assets of £4.0m reflected the net effect of disposals and acquisitions as well as depreciation of £4.4m exceeding capital expenditure by £1.2m in the year.

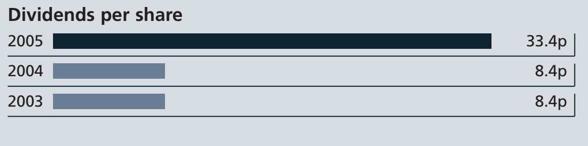
The Group continues to own the majority of its factories in the UK and the USA. Overseas sales offices are all leased. The long leasehold property in Abingdon and the factory in Oak Ridge, Tennessee are in the process of disposal.

Goodwill increased by £6.7m reflecting the additional goodwill arising on the acquisitions of Metorex (£4.9m) and Resonance (£2.9m) offset by amortisation of £1.1m for the year.

Pension schemes
The Company continues to account for pensions in accordance with SSAP 24. However, the combined deficit of the UK and US defined benefit pension plans under the FRS 17 accounting standard has increased from £25.8m to £30.0m after deducting the related deferred tax asset. The increase in the deficit reflects primarily the reduction from 5.6% to 5.4% in interest rates used to evaluate the present value of the UK liabilities. The principal (UK) scheme, which accounts for £28.3m of the total deficit of £30.0m was closed to new members in 2001. At 31 March 2003, at the time of the last formal actuarial valuation of the UK scheme, the liabilities in respect of past service exceeded the assets by £22.2m. On the advice of the actuary following this valuation, both the Company and employee contributions were increased commencing October 2003. These new contribution rates were set with the expectation that the deficit would be recovered over the average working life of members of sixteen years. The Board has announced its intention of making a special contribution to the UK defined benefit pension scheme of £6.0m. The next actuarial valuation of the UK scheme will occur at 31 March 2006 with the results expected to be available in September 2006.

Financing
At the year end the Group's bank facilities were sufficient for its short term needs. In addition to the multi-currency overdraft and short term borrowing facilities of £30.0m (or the foreign currency equivalent) available to the Group at 31 March 2005, the Group had contractually committed unsecured facilities of £15.0m. At 31 March 2005 none of the committed facilities and only £3.2m of the uncommitted facilities were in use. There is no known restriction on the Group's ability to transfer funds within the organisation.

Treasury management and policy
Group Treasury acts as a service to the businesses of the Group, not as a profit centre. It operates under policies approved by the Board. A formal report on Treasury activities is prepared for the Board at least twice each year. Group Treasury seeks to reduce financial risk and to ensure that the Group has sufficient liquidity available to meet all foreseeable needs. It is responsible for all of the Group's funding requirements, cash management and other treasury business. Group Treasury makes limited use of derivative instruments to hedge foreign currencies; speculative transactions are not permitted.



All of the Group's borrowing facilities are arranged by Group Treasury and the funds raised are then lent to operating subsidiaries on an arms length basis. In a few cases operating subsidiaries have external borrowings but these are supervised and controlled centrally. Group Treasury also manages the location and investment of surplus funds which, when appropriate, are invested predominantly in short-term deposits with major financial institutions meeting the credit criteria approved by the Board. At the present time the Group has decided not to enter into any arrangements to hedge against future movements in interest rates.

Given the high level of net exports, the Group faces currency exposures on those trading transactions undertaken by its UK subsidiaries in foreign currencies. To reduce uncertainty, the Group has a policy of selling forward known and forecast net foreign currency receivables for up to 12 months ahead. Note 30 on the Financial Statements shows the value at 31 March 2005 of contracts for forward sale of the major currencies in which the Group trades.

Subsidiaries are encouraged to manage all material transactional foreign currency exposures using forward contracts. Our overall policy of selling forward net currency receivables provides short term predictability but not long term protection from sterling movements against other currencies. Any items of a more complex nature require approval by Group Treasury.

Currency translation risks are controlled centrally. The policy is to manage the translation exposure of major overseas net assets by seeking to match partially the currency of borrowings with the currency in which the net assets are denominated. The objective is to maintain a low cost of borrowings overall whilst permitting the transfer of the profits of overseas subsidiaries to the Company through regular dividends. The Group does not hedge its currency exposure on the translation of profits earned in overseas subsidiaries.

Earnings and dividends
The profit on ordinary activities before tax of £3.6m included a profit of £6.8m from continuing operations, exceptional losses of £5.5m and a net combined profit on disposal and operating loss of the Medical business of £2.3m. After a total tax charge of £2.0m the net profit for the financial year was £1.6m.

Excluding the special interim dividend of 25.0p per share paid on 24 March 2005 the Group's proposed final dividend of 6.0p per share (2004 6.0p), payable on 28 October 2005, makes a total dividend for the year of 8.4p and remains the same as last year. Ignoring exceptional items and the profit on disposal of the Medical business, the total dividend for the year was covered 1.3 times by earnings, before goodwill amortisation.

Share price
The closing mid-market price of the ordinary shares at the end of the financial year was £2.49, compared with £2.38 at the beginning of the year. The increase in share price is in addition to the special dividend of 25.0p per share paid during the year. The highest and lowest prices recorded in the financial year were £2.68 and £1.76 respectively. At the close of trading on 2 June 2005 the share price was £2.39.

Shareholders' funds and share capital
Shareholders' funds at the year end were £82.0m (2004 £92.1m), or £1.70 per share (2004 £1.92 per share). There were no net borrowings. After provision for the proposed final dividend, distributable reserves of the Company were £93.7m.

There was no change in the capital structure of the Company during the year. At the year end the number of shares issued was 48.3m ordinary shares of 5p each.

0.2m new ordinary shares were issued in the year representing 0.5% of the total issued share capital. Under various employee share option schemes, set out in Note 24 on the Financial Statements, a further 3.5m new shares may be issued if performance conditions, where applicable, are met and the options are exercised. This would give a maximum increase in issued share capital of 7.3%. In addition 1.0m issued shares are held in trust in relation to the share option schemes.

International Accounting Standards ('IFRS')
The Group has been assessing the changes that will be required under IFRS in order to plan the transition from UK Accounting Standards and to be in a position to report its results under IFRS for the year to 31 March 2006. A transition plan has been presented to and approved by the Audit Committee and the Board. Key areas of focus include intangible assets, in particular research and development expenditure, share options, pensions and financial instruments. The interim results due to be published in November 2005 will be reported under IFRS.

Martin Lamaison Financial Director
3 June 2005

Nigel Keen | Michael Brady | Jonathan Flint | Martin Lamaison | Michael Hughes | Peter Morgan | Bernard Taylor

Directors
The following Directors served throughout the year except as noted:
N J Keen FCA, Chairman (and Chief Executive from 18 November 2004 until 4 April 2005)
M Brady FREng FRS, Deputy Chairman
M Lamaison FCA, Financial Director and Company Secretary
M A Hughes (from 1 November 2004)
P W L Morgan
B J Taylor

Jonathan Flint was appointed as a Director of the Company and its Chief Executive with effect from 5 April 2005.

Peter Hill resigned as a Director on 31 May 2004.

Andrew Mackintosh was Chief Executive until 17 November 2004 and resigned as a Director on 31 March 2005.

Board Committees
Audit: Peter Morgan, Chairman; Mike Brady; Bernard Taylor; Mike Hughes (from 1 November 2004)

Remuneration: Nigel Keen, Chairman; Mike Brady; Peter Morgan; Mike Hughes (from 1 November 2004)

Nomination: Nigel Keen, Chairman; Mike Brady; Peter Morgan; Bernard Taylor; Mike Hughes (from 1 November 2004)

Administration: Any two Directors.

Honorary President
Sir Martin Wood OBE FRS Hon FREng DL

Advisers
Auditors: KPMG Audit Plc
Principal Bankers: Barclays Bank PLC; HSBC Bank plc; Fortis Bank S.A./N.V.
Financial Advisers: JPMorgan Cazenove Limited
Stockbrokers: JPMorgan Cazenove Limited
UK Solicitors: Laytons
USA Counsel: Holland & Knight

Chairman
Nigel Keen, 58, Non-Executive Director, joined the Board in 1999. He is Chairman of The Laird Group PLC, Axis-Shield plc and Deltex Medical Group plc.

Deputy Chairman
Professor Sir Michael Brady, 60, Senior Independent Director, joined the Board in 1995 and is BP Professor of Information Engineering at Oxford University. He is also a Fellow of the Royal Society. He is a founding Director of Guidance and Control Systems Limited and Mirada Solutions Limited, now part of Siemens AG, and a Director of ISIS Innovation Limited.

Executive Directors
Jonathan Flint, 44, became Chief Executive in April 2005. He has a BSc in physics from Imperial College and an MBA from Southampton University. He has held senior management positions within Vislink plc, BAE Systems, GEC Marconi and Matra Space Systems.

Martin Lamaison, 61, joined Oxford Instruments plc in 1985 as Group Financial Director. Previously he was with Glaxo Group plc and BOC Limited.

Non-Executive Directors
Professor Michael Hughes, 60, Independent Non-Executive Director, joined the Board in November 2004. He is Chairman of EA Technology Limited and a Non-Executive Director of South Staffordshire Group plc.

Peter Morgan, 69, Independent Non-Executive Director, joined the Board in 1999. He is Chairman of Technetix Group Ltd and Strategic Thought Group plc and a Director of Hyder plc. He is a member of Kinnect Holdings Ltd and the Council of Lloyd's and a Director of the Association of Lloyd's Members.

Bernard Taylor, 48, Independent Non-Executive Director, joined the Board in 2002 and is Vice Chairman of JP Morgan plc. He is a member of The Council of the University of Oxford, Chairman of ISIS Innovation Limited, and a Non-Executive Director of TI Automotive Limited. He is also a Fellow of the Royal Society of Chemistry.

Oxford Instruments plc Reports and Financial Statements 2005

A big future for small science

The Directors present their Report and the Financial Statements of Oxford Instruments plc for the year ended 31 March 2005.

Principal activity and business reviews

The Company is the ultimate holding company of a group of subsidiary undertakings ('the Group') engaged in the research, development, manufacture and sale of advanced instrumentation. The business, the strategy, the research and development activities and likely future prospects are reviewed in the Chairman's Statement on page 2, the Strategy Statement on page 6, the Operating Review on pages 8 to 10 and the Financial Review on pages 12 to 15.

Acquisitions and disposals

Details of acquisitions and disposals are set out within the Financial Review on page 12 and within Notes 15 and 16 on the Financial Statements.

Results and dividends

The results for the year are shown in the Group Profit and Loss Account on pages 38 and 39. The Directors recommend a final dividend of 6.0p per ordinary share, which together with the interim dividend of 2.4p per ordinary share and special interim dividend of 25.0p per ordinary share paid on 24 March 2005 makes a total of 33.4p per ordinary share for the year (2004 8.4p). Subject to shareholder approval, the final dividend will be paid on 28 October 2005 to shareholders registered at close of business on 30 September 2005.

Directors

Profiles of all the Directors at the date of this report, including the Non-Executive Directors, appear on page 16. All the Directors served on the Board for the whole year under review with the exception of Andrew Mackintosh who ceased acting as Chief Executive on 17 November 2004 and resigned on 31 March 2005, Peter Hill who resigned on 31 May 2004 and Mike Hughes who was appointed on 1 November 2004. Jonathan Flint was appointed to the Board and as Chief Executive on 5 April 2005.

Directors' interests

The beneficial interests of the Directors in the Company's share capital, all in fully paid up shares at 31 March 2005 are shown below. There were no changes in the Directors' holdings between the year end and 3 June 2005. Details of share options are shown in the Directors' Remuneration Report on pages 30 to 32.

	2005 Shares	2004 Shares
Mike Brady	**2,500**	2,500
Nigel Keen	**85,000**	45,000
Martin Lamaison	**51,035**	48,751
Peter Morgan	**10,000**	10,000
Bernard Taylor	**190**	190

Andrew Mackintosh had an interest in 58,752 shares at 31 March 2005 (2004 58,752).

No Director was beneficially interested in the shares of any subsidiary company at any time during the year. In the year to 31 March 2005 no Director had a material interest in any contract of significance with the Company or any of its subsidiaries.

Insurance cover

For some years the Company has purchased insurance to cover its Directors and Officers against their costs in defending themselves in civil legal proceedings taken against them in that capacity and in respect of damages resulting from the unsuccessful defence of any proceedings. To the extent permitted by UK law, the Company also indemnifies its Directors and Officers. Neither the insurance nor the indemnity provided cover situations where the Director has acted fraudulently or dishonestly.

Share capital

During the year 218,330 new shares were issued (2004 164,063). Details are set out in Note 24 on the Financial Statements.

Substantial shareholdings

The following are beneficial interests of 3% or more and any non-material interests of 10% or more, of which the Directors have been notified, of the Company's issued ordinary share capital, the only class of voting capital, at 3 June 2005:

	Shares 000	% of total
Aberforth Partners	11,109	23.0
Britel Fund Trustees Limited (of which 5.7% forms part of Aberforth Partners holding and 6.6% forms part of the Hermes Pension Management holding)	5,274	12.3
Co-operative Insurance Society Limited (forms part of Aberforth Partners holding)	2,413	5.0
Sir Martin and Lady Audrey Wood	3,487	7.2
Hermes Pension Management	3,202	6.6
Devon County Council (forms part of Hermes Pension Management holding)	3,202	6.6
Nottinghamshire County Council (of which 6.6% forms part of Hermes Pension Management holding)	3,402	7.0
Railways Pension Trustee Company Limited (of which 5.0% forms part of Hermes Pension Management holding)	3,202	6.6
GAM Limited	2,910	6.0
AVIVA plc	2,837	5.9
Framlington Investment Management	2,024	4.2
Legal & General	1,617	3.3

Payment of suppliers

The Group does not follow a standard payment practice but agrees terms and conditions for its business transactions with each of its suppliers. Payment is then made to these terms, subject to the terms and conditions being met by the supplier. Trade creditors of the Company and the Group's UK subsidiaries at 31 March 2005 were equivalent to 40 days' and 41 days' purchases respectively, based on the average daily amount invoiced by suppliers to the Company and Group's UK subsidiaries during the year.

Annual General Meeting

The Notice of the Annual General Meeting to be held on 20 September 2005 is set out on pages 64 to 69 together with explanatory notes relating to the resolutions.

A resolution to re-appoint KPMG Audit Plc as Auditor will be proposed at the Annual General Meeting.

By Order of the Board
Martin Lamaison Company Secretary
3 June 2005

Introduction

Overall responsibility for developing policies on social, ethical and environmental matters and for reviewing their effectiveness lies with the Board. The Board is aware of the guidelines issued by the Association of British Insurers on corporate and social responsibility. As set out below, these matters are addressed currently in several ways. It is the responsibility of the operational management teams to ensure that policies are communicated, implemented and maintained within their particular businesses, whilst taking into account local legislation and potential risks.

Improving the world environment

Oxford Instruments' products make a significant contribution to society across numerous fields. Our magnet and cryogenic products are used by scientists to enable ground-breaking research into the world in which we live. Our products are also at the heart of hospital MRI body scanners, an increasingly preferred diagnostic tool used to examine the soft tissue of the human body. As the non-renewable energy reserves of the world are being consumed, national governments are combining their resources in a bid to find alternative, plentiful, energy sources and a Group product could be a key enabling factor in this programme.

For environmental monitoring, Oxford Instruments provides tools to determine easily the presence of hazardous substances in consumer products and the environment. Recent trends toward the restriction of certain dangerous elements in manufactured products has led to European Union legislation such as RoHS (Restriction of Hazardous Substances), WEEE (Waste Electronics and Electrical Equipment), ELV (End of Life Vehicle) and the Packaging Directive. X-ray fluorescence is fast becoming the preferred technique for regulatory compliance screening, and Oxford Instruments has a range of products specially designed for a variety of testing methods for a range of restricted hazardous substances such as lead, mercury, cadmium and chromium.

Working ethically

The Group's policy is to ensure that in all countries where it operates it complies with all legislation and recognised codes of practice. A business malpractice policy is in place worldwide, through which our employees can raise, in confidence, concerns they may have with any aspect of Company behaviour.

A fair and open culture is fostered in which everyone's views and contributions are encouraged and respected. The Company values are used to guide the way in which we work and are an integral part of our internal communications. We work to ensure that those who join the Company understand our culture and style, and business managers are provided with practical guidance explaining our policies and standards of conduct to ensure that these are maintained. Suppliers are rigorously audited prior to being appointed to ensure that their ethical principles match our own.

Our ethical approach is continuously under review and we look to further develop it as business needs and practice evolve.

Supporting our employees

Our aim is to ensure there are equal opportunities for all employees with no discrimination on account of race, age, gender, sexual orientation, disability, political or religious beliefs. Ability and contribution are the determining factors in the selection, training, career development and promotion of all employees. The Group is committed to continuing professional development and to managing actively individual and team performance and developing and valuing core skills. Having the right skills mix ensures that the business grows through producing innovative products that meet or exceed our customers' expectations.

It is the Group's policy to provide competitive remuneration referenced against external market data, whilst business and individual performance determine actual remuneration. Salaries are reviewed on an annual basis. Financial participation in the Group is encouraged through the Savings Related Share Option Scheme in the UK and by executive share options granted to management.

It is the Group's policy to minimise the need for compulsory redundancy through redeployment and re-training of employees where possible. Where an employee becomes disabled in any way whilst in the employment of Oxford Instruments, the Group works with them to make the necessary adjustments to ensure that wherever possible, their employment continues.

The Group shares with its employees, many of whom are shareholders, information on business activities, priorities and performance through regular team briefings. In addition the Group distributes to all employees an electronic newsletter "Business News", which keeps the employees updated on the Group's progress. All employees receive a copy of the Annual Report and Accounts.

Our approach to health and safety

Oxford Instruments is committed to ensuring the health, safety and welfare of its employees and to the continual improvement in its health and safety performance. The achievement of this aim is dependent on the establishment and maintenance of effective health and safety management systems, integrated into all business processes and line management functions within each of our businesses. Health and safety is an area where all parts of the Group can learn from each other. The health and safety managers from each of our manufacturing businesses in the UK meet regularly to share knowledge and best practice.

All businesses within the Group recognise the importance of keeping all employees updated on health and safety issues, and bringing to the notice of their employees a written statement of their policy relating to health and safety at work. In addition employees are kept informed of current issues through staff notice boards and bulletins. Employees are encouraged to submit observations or concerns relating to improvements that can be made in work conditions and practices. In order to maintain high standards throughout the Group training courses are regularly run and risk assessments are conducted to ensure staff are working in a comfortable and safe environment. Action is taken when required.

Overall the number of days lost during the year through work related occupational ill health as well as the recorded accidents were both lower than in the previous year.

Audits of health and safety procedures are undertaken at all major locations by external assessors on a regular basis. All businesses report to the Board on a regular basis progress with their health and safety objectives and goals, including actions taken.

Minimising our environmental impact

As with all businesses the Group's products, activities and services impact on the environment. Oxford Instruments is committed to taking steps to reduce any adverse impacts and thereby deliver continual improvement in its environmental performance. Systems are in place to meet the requirements of all applicable environmental laws and regulations, and the Group seeks to reduce waste and environmental impact by the adoption of appropriate practices in its operations.

All businesses report on environmental issues and compliance with local legislation. Action is taken to correct any unsatisfactory issues disclosed by these reviews.

As part of the Group's ongoing development, ways of improving efficiency so as to minimise the use of materials, energy and generation of waste and harmful emissions are sought constantly. There are a number of recycling initiatives operated at site level throughout the Group. Examples include the recovery of helium gas, the encouragement of staff to recycle paper and packaging including bottles and cans, reduction in energy consumption through the use of timing switches and increased use of telephone and video conferencing instead of travel.

Community involvement

For many years Group businesses have contributed and supported local charities and community activities. Total donations made by the Group during the year amounting to £30,000 (2004 £23,000) were made to a range of community organisations. It is the Group's policy to prohibit donations to any political party or similar organisation and therefore no donations to political parties were made.

Employees are encouraged to contribute to local charities using the Give-As-You-Earn scheme and the Company makes an additional donation to the chosen charity. The Group also regularly provides work placement experience for students and in the year ended 31 March 2005 spent £65,000 providing student sponsorship in the UK. The Group also sponsors a number of international awards including the prestigious Sir Martin Wood Prize through the Millennium Science Forum in Japan. As well as a cash prize, the winner receives a unique opportunity to lecture at a number of UK universities.

Nigel Keen Chairman
3 June 2005

Introduction

The Board is committed to ensuring that high standards of corporate governance are maintained by Oxford Instruments plc. The Board endorses the main and supporting principles and the provisions set out in the Combined Code on Corporate Governance of the Financial Reporting Council (the Code) which applied to the Company for the year commencing 1 April 2004 and complies with the Code, except as detailed below.

During the year, the Board conducted a full review of its corporate governance policies and procedures to reflect the impact of the Higgs Review of the Role and Effectiveness of Non-Executive Directors, the Smith Report on Audit Committees and the Code issued in July 2003. As a result of this review existing Board procedures and practices were strengthened. The Board's policies and procedures are documented in a Board Reference File that sets out the roles and delegated authorities applying to the Directors, the Board and the Board Committees.

Compliance

The Board considers that, throughout the period under review, the Company has complied with the provisions recommended in Section 1 of the Code, except where it has been explained in the Director's Remuneration Report on pages 28 and 29 in respect of provisions B.1.1 and B.1.6. These provisions relate to the inclusion of cash bonuses for pension purposes and the length of notice in service contracts. At 30 June 2005 the Company was compliant in respect of length of notice in service contracts for Executive Directors, and the recently agreed service contract for the newly appointed Chief Executive, Jonathan Flint, is compliant as it has a notice period of one year and because cash bonuses are excluded from pensionable salary.

Board of Directors and management structure

Structure

The Company is headed by the Board, which comprises the Chairman, four other independent Non-Executive Directors and two Executive Directors. For Board biographies and details of length of service, please see page 16. All the Directors have written letters of appointment that have been approved by the Board.

Nigel Keen is Non-Executive Chairman of the Board and for part of the year was also Chief Executive. Nigel Keen became Chief Executive on 18 November 2004 and served until 5 April 2005 when Jonathan Flint was appointed.

The division of responsibilities between the role of Chairman and the Chief Executive has been set out in writing and agreed by the Board.

Mike Brady, the Company's Deputy Chairman, has been Senior Independent Director since 2001.

Executive Management Team

The Board delegates management of the business to the Executive Management Team, headed by the Chief Executive. The other members of the Executive Management Team comprise the Group Financial Director, the Managing Directors of the Analytical and Superconductivity businesses, the Managing Directors of the Innovation business group and the Group's Japanese subsidiary, the Group-based Directors of Supply Chain and Customer Service and of Human Resources.

Operation of the Board

The Board is responsible to shareholders for delivering sustainable shareholder value through entrepreneurial leadership within a framework of controls for managing risk. The Board sets the Group's strategy; maintains the policy and decision making framework in which this strategy is implemented; ensures that the necessary financial and human resources are in place to meet strategic aims; monitors performance against key financial and non-financial indicators; oversees the system of risk management; and sets values and standards in governance matters.

The Board meets on a regular basis, at least ten times a year, and otherwise as required to ensure satisfactory execution of its duties. Of the ten regular meetings, typically eight are held at Company locations either in the UK or US, and the remaining two are held by telephone conference.

In November 2004 the Board approved a revised Board Reference File which details the way the Board operates, including a schedule of matters reserved to the Board for decision. The Board retains control over strategy, investments and capital expenditure, and limits the decisions which can be taken by management in the areas of governance, strategic and financial management and reporting, capital structure, corporate actions, mergers and acquisitions, contracts and other commitments, litigation and regulatory proceedings, remuneration and share plans. Where the Board delegates authority to management it is on a structured basis, which requires that proper management oversight exists at the appropriate level. Within management, the Executive Management Team, which meets at least once a month, either physically or by telephone conference, focuses on group-wide performance and risk management. Each of the individual strategic businesses holds monthly board meetings.

Board meetings involve reviews of financial and business performance against the plan approved by the Board and of risk management, both at group level and also for each of the strategic businesses. On a rotating basis, the Board receives presentations from the business groups and key functional areas enabling it to explore specific issues in more detail. Any matter requiring a decision by the Board will be supported by a pre-circulated paper analysing all relevant aspects of the proposal.

Board papers are distributed in advance of the relevant meeting in sufficient time to allow the Directors to prepare for meetings. Minutes of Committee meetings are circulated to the relevant Directors. In the very few instances when a Director has not been able to attend Board or Committee meetings, his comments on the papers to be considered at the meeting are communicated in advance to the relevant Chairman.

The Non-Executive Directors meet without the Executive Directors annually with the Chairman leading these meetings. The Non-Executive Directors also meet, annually, without the Chairman in attendance. The Senior Independent Director chairs these meetings.

The Company Secretary and Assistant Company Secretary are responsible for implementing Board procedures and for advising the Board on corporate governance matters.

Board balance and independence

The Code requires the Board should be of sufficient size that the balance of skills and experience is appropriate for the requirements of the business and that there is a balance of Executive and Non-Executive Directors such that no individual or small group of individuals can dominate the Board's decision making. The composition of the Board and the combination of diverse backgrounds and expertise of the Non-Executive Directors meets these principles.

In the opinion of the Board each of the Non-Executive Directors is currently independent under the guidelines set out in the Combined Code. This opinion is based on current participation and performance on both the Board and Board Committees including consideration of the length of service at Oxford Instruments plc.

Mike Brady has been a member of the Board since June 1995. He is BP Professor of Information Engineering at Oxford University and is one of the UK's leading engineers. He brings a depth of technical expertise to Board discussions. The breadth of his professional and business interests unrelated to the Group or other members of the Board; his continual constructive probing from the technical aspect of proposals being considered by the Board; the composition of the Board generally and the fact that he qualifies as independent in all other criteria referred to in the Combined Code, leads the Board to conclude that it is appropriate that he continue in office and that he should properly be considered as independent.

The Chairman, Nigel Keen who fulfilled the independence criteria at the time of his appointment as set out in the Code, is currently Chairman of the Remuneration Committee as the Board considers that in a small company it is essential that the Chairman be involved in setting remuneration policy.

Appointments to the Board

There is a formal, rigorous and transparent procedure for the appointment of new Directors to the Board, the prime responsibility for which is delegated to the Nomination Committee. Each appointment process begins with an evaluation of the balance of skills, knowledge and experience existing on the Board that is effected through a series of one-on-one meetings between the Committee Chairman and Directors. An external search consultant is then appointed and a description of the role and capabilities required is prepared using the information gathered. The consultant draws up a list of potential candidates and a shortlist is then created through consultation with the Chairman and the Chief Executive. Candidates meet with the Chairman and the Senior Independent Director and a final selection of potential appointees meets each Director individually. Following these meetings, the Nomination Committee meets formally to consider each Director's feedback and to finalise a recommendation to the Board concerning any appointment.

On joining the Board, new Directors are given an induction programme including site visits and meetings with senior management. This induction is supported by briefing papers prepared by the Company Secretary. Major shareholders are provided with an opportunity to meet any new Non-Executive Directors.

This process was followed in the recent search and subsequent appointment of both Mike Hughes, as a Non-Executive Director and Jonathan Flint as Chief Executive.

Term of appointment of Non-Executive Directors

Each Non-Executive Director is appointed for an initial term of three years. The requirement to submit Directors for reappointment at regular intervals is met by applying the Company's articles of association. These require that at each Annual General Meeting: (1) not less than one-third of the Directors who are subject to retirement by rotation must retire, and (2) any Director has to retire who was not appointed at either of the two previous Annual General Meetings and who has served as a Director for more than two years since appointment or last reappointment.

In addition Directors who have been appointed since the previous Annual General Meeting have to resubmit themselves for election at the first Annual General Meeting following their appointment.

Board development and evaluation

Board development

On appointment Directors undertake an induction process which is designed to develop knowledge and understanding of the Company's business, through visits to various Group operating sites, discussion of relevant technology as well as product demonstrations, briefings from management and familiarisation with investor perceptions of the Group.

The operating businesses' senior management teams present to the Board on a regular basis and a series of opportunities exists throughout the year for informal contact. Directors are free to meet individual members of the senior management team and have done so during the year under review. Throughout the year, Directors are encouraged to attend any of Oxford Instruments events, exhibitions and awards.

The Company Secretary and Assistant Company Secretary act as advisers to the Board on matters concerning governance and ensure Board procedures are complied with. All Directors have access to this advice and a procedure also exists for Directors to take independent professional advice at the Company's expense. No such advice was sought during the year. The appointment, removal and remuneration of the Company Secretary are matters for the Board as a whole.

Board evaluation

In the year ended 31 March 2005 the Board completed its initial annual effectiveness evaluation exercise, including a specific review of the effectiveness of its principal committees. This was an internal exercise using a detailed questionnaire completed by all Directors in relation to the key areas of Board accountability and the arrangements in place to enable effective focus on these areas. Topics covered included Group strategy, performance, delegation and accountability, success, development and reward, Board and Committee composition, Board induction and training, internal control and risk management. The performance of individual Non-Executive Directors was evaluated by the Chairman and the Executive Directors in conjunction with the Non-Executive Director himself. The Non-Executive Directors, led by the Senior Non-Executive Director, have considered the performance of the Chairman, taking into account the views of the Executive Directors. The Chairman has considered the performance of the Executive Directors.

Attendance at meetings

No one other than the Committee chairman and members is entitled to be present at a meeting of the Nomination, Audit or Remuneration Committee, but others may attend by invitation of the Committee.

No Director votes on matters where he has a conflict of interest. Further details of the individual Committees' activities are described below.

The following table sets out the frequency of, and attendance at, Board and principal Board Committee meetings for the year to 31 March 2005:

	Main Board	Nomination Committee	Remuneration Committee	Audit Committee
No of meetings held	11	4	5	5
Nigel Keen	11	4	5	5 [1]
Andrew Mackintosh	6	3 [1]	–	3 [1]
Martin Lamaison	11	3 [1]	2 [1]	5 [1]
Mike Brady	11	4	5	5
Peter Hill	–	–	–	–
Peter Morgan	11	4	5	5
Bernard Taylor	11	3	3 [1]	4
Mike Hughes [2]	6	1	3	2

1 in attendance by invitation of the Committee

2 appointed 1 November 2004

Board Committees

The Board is supported by the following Committees: Nomination, Remuneration, Audit and Administration. Membership of the Board Committees is set out on page 16. Membership of Board Committees is determined by the Board and is reviewed regularly. The written terms of reference of the Board Committees are available from the Company on request and will be on display at the Annual General Meeting.

Nomination Committee

The Nomination Committee comprises independent Non-Executive Directors, under the chairmanship of the Chairman of the Company. The Nomination Committee is responsible for assisting the Board in the formal selection and appointment of Directors and considers succession planning for the Board. It also considers potential candidates and recommends appointments of new Directors to the Board. The appointments are based on merit and against objective criteria including the time available, and commitment that will be required of, the potential Director.

The Nomination Committee also recommends to the Board whether a Non-Executive Director's appointment should be renewed for a further three years at the end of each three year term, taking into account the performance of the individual.

The Board is aware of the other commitments of its Directors and is satisfied that these do not conflict with their duties as Non-Executive Directors of the Company.

Remuneration Committee

The Remuneration Committee is responsible for recommending to the Board the remuneration packages for Executive Directors and the bonus and share option strategy for the Group's executive management. Independent professional advice is sought when considered necessary. Under its terms of reference the Chairman of the Board may be Chairman of the Committee. The Chairman of the Board, Nigel Keen, who fulfilled the independence criteria at the time of his appointment as set out in the Code, is currently Chairman of the Remuneration Committee as the Board considers it essential that the Chairman be involved in setting remuneration policy. The members of the Committee are appointed by the Board. The Board as a whole is responsible for fixing the remuneration of the Non-Executive Directors, including the Chairman.

The Chief Executive is invited to attend Remuneration Committee meetings as deemed appropriate, for example when consideration is being given to the performance of other Executive Directors and on significant group-wide changes in salary structure and terms and conditions affecting other employees at senior executive level. Further details of the Remuneration Committee are included in the Directors' Remuneration Report set out on pages 28 to 33.

Audit Committee

The primary objective of the Audit Committee is to assist the Board of Directors in fulfilling its responsibilities relating to external financial reporting and associated announcements; oversight of the external audit process including consideration of the independence of the Group's external auditors; the resourcing and plans of the Internal Audit function; and the adequacy and effectiveness of the control environment.

The Audit Committee's terms of reference include all matters indicated by the Combined Code. The terms of reference are considered annually by the Audit Committee and are then referred to the Board for approval. The Audit Committee structure requires the inclusion of one member with relevant recent financial experience, currently the Committee Chairman, and expects all Audit Committee members to be financially literate.

The Audit Committee is chaired by Peter Morgan. The Chairman of the Board and members of senior management such as the Chief Executive and Financial Director are invited to attend all or part of any meetings or to present such reports as are required for the Committee to discharge its duties. The external auditors are invited to attend meetings of the Committee on a regular basis, including once at the planning stage before the audit and once after the audit at the reporting stage. At least once a year the Committee meets with the external auditors without the Executive Directors present.

The Audit Committee Chairman reports the outcome of meetings to the Board and the Board receives minutes of all Audit Committee meetings. The Audit Committee has unrestricted access to Group documents and information, as well as to employees of the Group and the external auditor.

The Committee reviews the interim and annual financial statements, together with the related Stock Exchange announcements, having received information on the accounting principles, policies and practices adopted in the Group's accounts; changes proposed to those principles, policies and practices; significant accounting issues; litigation and contingent liabilities affecting the Group; potential tax contingencies and the Group's compliance with statutory tax obligations.

The Audit Committee is responsible for the development, implementation and monitoring of the Group's policy on external audit. The Audit Committee reserves oversight responsibility for monitoring the independence and objectivity of the external auditors and compliance with ethical and regulatory requirements. The policy states that the external auditors are jointly responsible to the Group Board and the Audit Committee and that the Audit Committee is the primary contact.

A review takes place annually of the performance of the external auditors following the completion of the annual audit.

To assess the effectiveness of the external auditors, the Audit Committee reviews:

- The external auditors' fulfilment of the agreed audit plan and variations from the plan
- The robustness and perceptiveness of the auditors in their handling of key accounting and audit judgements
- The external auditors' comments in respect of internal controls

To fulfil its responsibility regarding the independence of the external auditors, the Audit Committee reviews the changes in key external audit staff in the external auditor's plan for the current year; the arrangements for day-to-day management of the audit relationship; a report from the external auditors describing their arrangements to identify, report and manage any conflicts of interest and the overall extent of non-audit services provided by the external auditors, in addition to the case-by-case approval of the provision of non-audit services by the external auditors.

Details of the audit fees, together with fees for non-audit services for the year, are set out in Note 5 on the Financial Statements. In November 2002 the Audit Committee was briefed on the recommendation of management to appoint KPMG Corporate Finance to advise on the disposal of the Medical business following a formal selection process. The Committee considered and subsequently approved the Executive Directors' recommendation.

The Audit Committee is required to assist the Group Board to fulfil its responsibilities relating to the adequacy and effectiveness of the control environment. This includes consideration of the adequacy of the resourcing and plans of the Internal Audit function. To fulfil these duties the Committee reviews:

- The Group's risk framework and risk policies
- The external auditors' annual internal control report
- The Internal Audit function's terms of reference, reporting lines and access to the Audit Committee and all members of the Board, and its plans and achievement of the planned activity
- Internal Audit reports on key audit areas and significant control environment deficiencies
- Reports on the systems of internal controls and risk management
- Reports on fraud perpetrated against the Group and current fraud trends

The Group's whistleblowing policy contains arrangements for the Audit Committee to receive, in confidence, complaints on accounting, risk issues, internal controls, auditing issues and related matters from the Group's employees. During the year no such complaints were received.

Administration Committee

The Administration Committee consists of a minimum of two Directors and deals with items of a routine and administrative nature.

Investor relations

The Company places considerable importance on regular communications with shareholders, including employees, a significant number are also shareholders of the Company. The Company has an ongoing programme of dialogue and meetings with its shareholders, where a wide range of relevant issues including strategy, performance, management and governance are discussed. In the year, a 'Business Briefing' was held for analysts and shareholders focusing on Oxford Instruments' businesses and highlighting current product and development activities. This presentation was posted on the Company website for the benefit of investors who were not present at the briefing.

All investors are encouraged to participate in the Annual General Meeting at which the Chairman and Chief Executive present an overview of the Group's business and review the results and make comment on strategy and current business activity.

The Non-Executive Directors meet informally with shareholders both before and after the Annual General Meeting, and respond to shareholder queries and requests. The Chairman makes himself available to meet any significant shareholders, as required.

All Company announcements are posted on the Company website, www.oxford-instruments.com, as soon as they are released.

Annual General Meeting (AGM)

The Board welcomes the move towards a more constructive use of Annual General Meetings and regards the AGM as a principal opportunity to meet private shareholders. At its AGM, the Company complies with the provisions of the Combined Code relating to the disclosure of proxy votes, the separation of resolutions and the attendance of Committee Chairmen. The Company arranges for the Annual Report and Accounts and related papers to be posted to shareholders so as to allow at least 20 working days for consideration prior to the AGM. The next AGM will be held on 20 September 2005.

Risk management

Within the Group there is an ongoing embedded process for identifying, evaluating and managing the significant risks faced by the Group. Day-to-day management of this process has been delegated by the Board to the Executive Directors.

A standard process is in place throughout the Group that requires the senior management of each business to identify significant business risks and to classify them both as to probability and potential impact. Once identified, mitigating action, where possible, is decided and responsibility within the management team assigned. On a regular basis each business reviews and updates its risk summary which is then reported to the Chief Executive. If a material risk changes or arises, the Managing Director of the business reports this in writing to the Chief Executive at which time there is a discussion on the adequacy of the mitigating actions taken. Details of all major risks identified and the mitigating actions in place are reported to and reviewed by the Board.

In addition, the Board considers risks to the Group's strategic objectives which are not addressed within the Group's businesses and develops appropriate actions to manage and mitigate these risks.

Internal control

The Board is ultimately responsible for the Group's system of internal controls and for reviewing its effectiveness. However, such a system is designed to manage rather than eliminate the risk of failure to achieve business objectives, and can provide only reasonable and not absolute assurance against material misstatement or loss. Day-to-day responsibility for maintaining adequate systems of internal control is delegated to the Executive Directors.

During the year the Directors have reviewed the effectiveness of the Group's system of internal controls. These controls include financial, operational, compliance and risk management.

The key components designed to provide effective internal control within the Group are as follows:

- a formal schedule of matters is reserved to the Board for decision with appropriate delegation of authority throughout the management structure;
- the Group's management structure is based on the identification of separate businesses for each of the Group's activities; the heads of these businesses together with the Chief Executive, the Group Financial Director and certain other members of the senior management team form the Group's Executive Management Team; there are clearly defined lines of management responsibilities at all levels up to and including the Group Board; the Group's accounting and reporting functions reflect this organisation;
- financial executives within Group businesses report to their own operational head but there is also a well established and acknowledged functional reporting relationship through to the Group Financial Director;
- the Board reviews strategic issues and options formally once a year during the annual strategic planning process and during the year as appropriate;
- annual budgets are prepared for each of the Group's businesses which include monthly figures for turnover, profit, capital expenditure, cash flow and borrowings; the budgets are reviewed through the Group management structure and result in a Group financial budget which is considered and approved by the Board;
- the businesses prepare monthly management accounts which compare the actual operating result with both the budget and the prior year; the businesses also prepare rolling reforecasts for orders, turnover, operating profit and cash covering at least the next six months in detail and from time to time a further six months in summary; both are reviewed by the Board monthly;

- the Board approves all acquisition and divestment proposals, and there are established procedures for the planning, approval and monitoring of capital expenditure;
- for all major investments the performance of the first twelve months against the original proposal is reviewed by the Board;
- the Board maintains an internal control framework defining for each control area, the reporting mechanics and the responsibility;
- each Group site, except for representative sales offices, submits a self assessment internal control questionnaire every six months;
- internal audit is carried out through a system of regular reviews of the internal controls at each site by accountants from other parts of the Group and in Japan and China, due to language issues, by the local external auditors;
- work performed is based on a standardised Group format but involves random testing, together with a review of the internal control questionnaire;
- where required, action plans are drawn up by the businesses in conjunction with the Group Financial Director to remedy any significant control weaknesses that are identified from completion of the internal control questionnaire or as a result of the internal audit; checks on the progress of the action items arising are then made; the results of audit reviews are reported to local management, the Group Financial Director and the Audit Committee;
- the Board receives regular updates on treasury, tax, property, insurance and health and safety matters;
- authorisation limits are set at appropriate levels throughout the Group; compliance with these limits is monitored by the Group Financial Director and internal audit; and
- all requests to quote for substantial fixed price contracts are reviewed by a multi-disciplinary team to assess both technical and financial risk and to fix an appropriate balance between risk and reward. However, no procedure can guarantee the avoidance of losses on fixed price contracts of a technical nature.

Martin Lamaison Company Secretary
3 June 2005

The Directors' Remuneration Report sets out the Company's policy on the remuneration of Executive and Non-Executive Directors together with details of the Directors' remuneration packages and service contracts.

Remuneration Committee

Details of the composition of the Remuneration Committee are set out on page 16. The principal function of the Committee is to define and communicate to the Executive Directors the Company's policy on the remuneration, benefits and terms of employment for each Executive Director. As part of this process, the Committee aims to provide a formal and transparent framework for the development of remuneration policy for the Executive Directors and for fixing the remuneration packages of individual Directors.

The Board, as a whole is responsible for fixing the remuneration of the Non-Executive Directors, including the Chairman.

No Director is involved in deciding his own remuneration.

The Committee also reviews the granting of share options (both in the approval of new long term incentive schemes and significant changes to existing schemes) and general increases in salaries and bonus arrangements for staff and the Executive Directors, with input as required from the Chief Executive in respect of the Group Financial Director and senior management. The Chairman maintains contact with principal shareholders regarding remuneration policy as appropriate.

Over the past year the Committee appointed New Bridge Street Consultants to provide independent external professional advice on the Executive Directors' remuneration and option schemes and the Chairman's salary.

Remuneration policy

The Remuneration Committee has established a policy on the remuneration of Executive Directors and the Board has established a policy for the remuneration of the Chairman and the Non-Executive Directors for the current and subsequent financial years.

Executive Directors

The Company has an incentive-driven Executive Director remuneration policy that promotes the Group strategy and seeks to align the interests of directors and shareholders and reflects the performance of each Director. A significant proportion of total potential rewards is provided through performance-based schemes. Overall the remuneration package aims to be appropriate to attract, motivate and retain high calibre executives. The Remuneration Committee's policy on early termination is to provide compensation which reflects the Company's contracted obligations, whilst recognising the principle of mitigation of damages.

Service contracts

Each of the Executive Directors has a service contract. Company policy is to enter into service contracts with Executive Directors that have a notice period of one year.

In the past the service contracts in place for the Executive Directors have not complied with the Remuneration Committee's current policy. As stated in last years Directors' Remuneration Report steps were taken to reduce the two year notice period in place for older contracts progressively to one year and by 30 June 2005 Martin Lamaison's notice period will be a maximum of one year. During the year Andrew Mackintosh, the only other Director with a contract containing a two year notice period, ceased to be a Director of the Company.

The Non-Executive Directors do not have service contracts but their appointments are subject to review every three years and the rotation provisions of the Company's Articles of Association.

Non-Executive Directors

The Company's policy is to appoint Non-Executive Directors to the Board with a breadth of international skills and experience that is relevant to Oxford Instruments' global business. Appointments are made by the Board upon the recommendations and advice from the Nomination Committee.

Executive Directors' remuneration

The Executive Directors receive base salary, annual performance awards, pensions and other benefits, and long term performance awards. Base salaries, benefits and performance awards of the Executive Directors are reviewed annually by the Remuneration Committee. Base salaries are determined with reference to an appropriate comparator group of companies, which is reviewed annually. Consideration is also given to the Director's experience, performance and responsibilities. Benefits comprise provision of a car allowance, life, disability and health insurance, participation in a bonus scheme and a pension.

For Executive Directors appointed up to April 2001, a contributory pension at the age of sixty of up to two thirds of pensionable salary is provided, related to the length of service, together with a dependants' pension on death in service or retirement. Executive Directors appointed since April 2001 are entitled to Company contributions to a defined contribution scheme of their choice in accordance with contractually agreed contribution rates.

Emoluments of the Executive Directors showing the breakdown between base and performance related remuneration:

	Salary £000	Benefits £000	Performance related remuneration £000	Termination payment £000	Total remuneration **2005 £000**	2004 £000
Nigel Keen 1	120	–	–	–	**120**	–
Andrew Mackintosh 2	159	8	–	525	**692**	388
Martin Lamaison	200	13	119	–	**332**	235
Total	479	21	119	525	**1,144**	623

1 This reflects payments to Imperialise Limited as described below in respect of Nigel Keen's service as Chief Executive between 18 November 2004 and 31 March 2005.

2 Andrew Mackintosh's salary and benefits to 17 November 2004.

Annual Performance Incentive Bonus

The annual bonus is set at a percentage of base salary on a sliding scale with a maximum in normal circumstances of 75% of base salary. Bonuses are earned primarily on the achievement of target economic added value, with further elements payable on meeting specific personal goals and on comparative share price performance in the financial year. Bonuses are paid after the completion of the statutory annual audit.

The Executive Directors' bonus scheme for the year ended 31 March 2005 set performance targets which would pay bonuses for on target performance at the rate of 50% of base salary for Andrew Mackintosh and 35% of base salary for Martin Lamaison. Performance in excess of the targeted economic added value would attract incremental payments.

The Remuneration Committee considered that Andrew Mackintosh's performance in the period from 1 April 2004 to 17 November 2004 had not met the required performance targets and he would therefore not be eligible for a bonus. Following the successful disposal of the Medical business at a higher than expected price, the Remuneration Committee decided to provide Martin Lamaison with an exceptional bonus equal to 60% of his salary.

Pension Plans

Oxford Instruments Pension Scheme

All employees, including the Company's Executive Directors, who were engaged before April 2001 were entitled to become members of the defined benefit Oxford Instruments Pension Scheme. This is a contracted-out contributory pension scheme which provides benefits based on earnings at or near retirement and is funded through a separate trust. Salary eligible for pension under this scheme is defined as base salary received in the last tax year plus average annual variable earnings received in the last five consecutive scheme years, provided that the annual variable earnings do not exceed 50% of base salary. Variable earnings for the Executive Directors are cash bonuses only, which are deemed an integral part of their remuneration.

With effect from 1 April 2004 the Company contributed to the scheme at a rate of 14.5% of pensionable salary. Employees can choose to contribute at rates of 6.0%, 7.0%, 9.5% or 10.5% of pensionable salary, with the higher rates earning benefits at the faster rate of 2% per year (1/50ths) of service instead of 1.67% (1/60ths). The additional 1.0% paid by those contributing 7.0% and 10.5% entitle the member to take all benefits at the lower age of 60. However the normal retirement age for all UK employees is 65 and continued accrual of service in the pension schemes can continue until 65.

Early retirement is possible on a reduced pension from age 50 with the consent of the Company. Pensions in payment are guaranteed to increase by a level of inflation up to a maximum of 3% per year on pension earned before 1 April 1997 and a maximum of 5% per year thereafter, subject to any applicable statutory requirements.

For death before retirement a spouse's pension of one half of the member's prospective pension is payable plus a capital sum of three times the member's pensionable salary and a refund of the member's contributions. For death after retirement a spouse's pension of one half of the member's pension is payable plus the balance of a five year guarantee if applicable. In the event of death after leaving service but before commencement of pension a spouse's pension of one half of the accrued preserved pension revalued to the date of death is payable plus a refund of the member's contributions. In all circumstances children's allowances are also payable if applicable.

Following the closure of the Company's defined benefit scheme to new members in April 2001, Executive Directors appointed now are offered membership of the Oxford Instruments Stakeholder Plan, a defined contribution scheme or the Executive Director can elect that contributions be made into a defined contribution plan of his or her choice. Under this arrangement only base salary is pensionable.

Oxford Instruments 1998 Executive Pension Scheme

The Oxford Instruments 1998 Executive Pension Scheme is a defined contribution 'top-up' arrangement providing a lump sum at retirement and also an additional capital sum of one times the member's pensionable salary for death before retirement. Only the Company makes contributions to this scheme. The scheme is not currently available to new members.

Martin Lamaison and Andrew Mackintosh are members of the Oxford Instruments Pension Scheme and the Oxford Instruments 1998 Executive Pension Scheme. The Government's proposed changes to the tax regime applying to occupational pension schemes to take effect from 6 April 2006 are still under review.

Under the terms of his service contract Jonathan Flint can choose to join the Company's Stakeholder Plan or elect that the Company contributes to a pension plan of his own choice. The Company will contribute a maximum of 14% of base salary if matched by a contribution of 10% from him. Cash bonuses are excluded from contribution calculations.

The following table shows for the Oxford Instruments Pension Scheme the compulsory member's contributions, the increase in accrued entitlement during the year in excess of inflation and the accrued entitlement at the end of the reporting period, together with the transfer value of the accrued pensions:

	Age as at 31 March 2005 Years	Accrued years of service Years	Member's contributions during the year £000	Additional annual pension earned during the year £000	Additional annual pension earned during the year in excess of inflation £000	Accrued annual entitlement at year end £000
Andrew Mackintosh	49	20	29	16	13	109
Martin Lamaison	61	20	19	7	5	73

	Transfer value of accrued pension 2005 £000	Transfer value of accrued pension 2004 £000	Change in transfer value over year less member contributions £000
Andrew Mackintosh	**1,265**	1,002	234
Martin Lamaison	**1,306**	1,190	97

Company contributions to the Oxford Instruments 1998 Executive Pension Scheme during the year were £19,000 (2004 £16,000) and £17,000 (2004 £16,000) for Andrew Mackintosh and Martin Lamaison respectively.

Share Incentive Schemes

The Company has a number of share option schemes for the incentivisation of Executive Directors and employees of the Group:

- the Executive Share Option Scheme (ESO);
- the Senior Executive Long Term Incentive Scheme (SELTIS);
- Individual Options (Individual); and
- Save-As-You-Earn Scheme (SAYE).

The ESO scheme is the principal vehicle used to incentivise the Executive Directors and senior management. The SELTIS and Individual schemes are used at the discretion of the Remuneration Committee. The SAYE scheme is open to all UK permanent staff employed for at least 6 months on the date of invitation to join the scheme.

ESO schemes (1995 and 2001)

These shareholder and Inland Revenue approved schemes grant options over new shares to be issued at the time of exercise and also over existing shares. Options granted to an individual in excess of £30,000 are classified as unapproved options.

All future awards of ESO share options will be made under the 2001 ESO scheme. The aggregate market value of shares over which options under the 2001 ESO scheme may be granted to an individual participant in any financial year may not normally exceed twice base salary. However, in exceptional circumstances the limit is three times base salary, provided that to the extent an individual is granted options in excess of the standard limit, there will be a corresponding reduction in the number of shares under options granted in the next two years. For the purpose of calculating these limits, the Company's share price will be averaged over the three months before the options are granted.

Options are granted at the middle market price on the last dealing day prior to grant and are exercisable after three years but not more than ten years from the date of grant.

Performance conditions

1995 ESO

Over a period of three consecutive years the growth in earnings per share (EPS) of the Company expressed as a percentage to exceed the growth in the Retail Price Index (RPI) expressed as a percentage plus a further 2% per year over the same period.

2001 ESO

The performance conditions are based equally on the Company's total shareholder return (TSR) performance and on its EPS performance (adjusted to exclude exceptional items and goodwill amortisation).

The Committee considers that the combination of TSR and EPS performance conditions will encourage shareholder value creation and improved financial performance. In selecting appropriate targets the Committee takes into account both the recent performance of the Company and its projections for future growth.

When the 2001 ESO scheme was established the Remuneration Committee set the initial conditions for the full vesting of options at 30% per year growth in EPS and TSR. This was considered consistent with the recovery phase of the business. It was intended that over time the performance conditions would revert to a lower target, appropriate to a more stable business. For 2002 and 2003 full exercise of options requires 25% and 20% per year growth respectively in EPS and TSR. For 2004 onwards 15% growth in EPS and TSR is required. Details are set out in the tables opposite.

The options granted in September 2001 will become exercisable proportionately by reference to the levels of both TSR and EPS target growth performance achieved as follows:

EPS/TSR growth performance	Proportion of total options exercisable against each criteria
Average of 30% or more p.a.	50%
Average of 15% – 29.99% p.a.	Pro-rata between 12.25% and 50%
Average of 15% p.a.	12.25%
Less than an average of 15% p.a.	Nil

For the options granted in July and December 2002 both the TSR and EPS target performance levels are:

EPS/TSR growth performance	Proportion of total options exercisable against each criteria
Average of 25% or more p.a.	50%
Average of 12.5% – 24.99% p.a.	Pro-rata between 12.25% and 50%
Average of 12.5% p.a.	12.25%
Less than an average of 12.5% p.a.	Nil

For the options granted in July 2003 both the TSR and EPS target performance levels are:

EPS/TSR growth performance	Proportion of total options exercisable against each criteria
Average of 20% or more p.a.	50%
Average of 10% – 19.99% p.a.	Pro-rata between 12.25% and 50%
Average of 10% p.a.	12.25%
Less than an average of 10% p.a.	Nil

For options granted from July 2004 onwards both the TSR and EPS target performance levels are:

EPS/TSR growth performance	Proportion of total options exercisable against each criteria
Average of 15% or more p.a.	50%
Average of 7.5% – 14.99% p.a.	Pro-rata between 12.25% and 50%
Average of 7.5% p.a.	12.25%
Less than an average of 7.5% p.a.	Nil

The performance conditions for options under the 2001 ESO scheme are measured over a single three year period. No extension of the performance period is permitted although once performance conditions have been met participants have the remainder of the ten year period of the option in which to exercise the option.

SELTIS

The SELTIS scheme is similar to the ESO schemes, with the exception that options are exercisable at no cost to the option holder.

The value of shares over which options may be granted under the SELTIS scheme to any one participant in a financial year may not exceed 50% of base salary. For the purpose of calculating this limit, the market value is the closing middle market price of the Company's shares on the day before the date of grant.

Performance conditions

SELTIS options granted prior to the establishment of the 2001 ESO scheme

The growth in EPS of the Company expressed as a percentage exceeds the growth in the RPI expressed as a percentage plus a further 4% per year over the same period.

SELTIS options granted since the establishment of the 2001 ESO scheme

The performance conditions are the same as those applying to awards under the 2001 ESO scheme in the same financial year as detailed above.

Individual options

Individual options are granted at the discretion of the Remuneration Committee.

Performance conditions

Individual options granted in March 1998

A market price of greater than £4.50 per ordinary share is achieved at some time during the four months preceding the date upon which notice to exercise is given. This price is absolute and is not linked to general Stock Exchange or Stock Exchange sector price movements.

Individual options granted in December 2001

The performance conditions are the same as those applying to awards under the 2001 ESO scheme in that financial year as detailed above.

SAYE options

The SAYE scheme is administered in accordance with Inland Revenue guidelines. There are no performance conditions.

As at the 31 March 2005 the outstanding options for Andrew Mackintosh and Martin Lamiason under the 1995 and 2001 ESO schemes, the SELTIS scheme, Individual options and SAYE were as follows:

	Scheme	2005	Number of options during the year Granted	Exercised	Lapsed[1]	2004	Exercise price	Date for earliest exercise	Date for latest exercise
Andrew Mackintosh	SAYE	**280**	–	–	–	280	£1.35	01/02/06	31/07/06
	2001 ESO	**220,085**	220,085	–	–	–	£2.18	15/07/07	14/07/14
	2001 ESO	**217,097**	–	–	–	217,097	£1.88	15/07/06	14/07/13
	2001 ESO	**148,678**	–	–	–	148,678	£2.22	15/07/05	14/07/12
	2001 ESO	**166,666**	–	–	(166,667)	333,333	£1.59	28/09/04	27/09/11
	1995 ESO	**25,000**	–	–	–	25,000	£4.13	28/11/98	27/11/05
	SELTIS	**49,751**	–	–	–	49,751	Nil	17/07/05	16/07/09
	SELTIS	**24,692**	–	–	(24,691)	49,383	Nil	20/12/04	19/12/08
	SELTIS	**44,000**	–	–	–	44,000	Nil	14/07/02	13/07/06
	SELTIS	**44,000**	–	–	–	44,000	Nil	21/12/03	20/12/07
	Individual	**82,750**	–	–	(82,750)	165,500	Nil	20/12/04	20/12/08
	Individual	**75,806**	–	–	(75,807)	151,613	£2.05	20/12/04	20/12/08
	Individual	**100,000**	–	–	–	100,000	£2.95	06/03/03	06/03/08
Martin Lamaison	SAYE	**636**	–	–	–	636	£1.74	01/02/07	31/07/07
	SAYE	**280**	–	–	–	280	£1.35	01/02/06	31/07/06
	SAYE	**–**	–	(568)	–	568	£1.87	01/02/05	31/07/05
	SAYE	**–**	–	(1,716)	–	1,716	£1.77	01/02/05	31/07/05
	2001 ESO	**145,128**	145,128	–	–	–	£2.18	15/07/07	14/07/14
	2001 ESO	**154,340**	–	–	–	154,340	£1.88	15/07/06	14/07/13
	2001 ESO	**105,726**	–	–	–	105,726	£2.22	15/07/05	14/07/12
	2001 ESO	**128,125**	–	–	(128,125)	256,250	£1.59	28/09/04	27/09/11
	SELTIS	**33,000**	–	–	–	33,000	Nil	21/12/03	20/12/07
	SELTIS	**33,000**	–	–	–	33,000	Nil	14/07/02	13/07/06
	Individual	**50,000**	–	–	–	50,000	£2.95	06/03/03	06/03/08

1 Lapsed as the performance condition had not been met in the required timeframe.

Andrew Mackintosh and Martin Lamaison respectively made gains of £nil and £1,094 on exercise of share options during the year to 31 March 2005 (2004 £1,053 and £113). These gains have not been realised as the shares to which they relate have not been sold. Cumulatively Andrew Mackintosh and Martin Lamaison have 382,359 and 151,417 options under various schemes capable of exercise. A further 55,555 and 42,708 options for Andrew Mackintosh and Martin Lamaison respectively have met their performance criteria, but need to be held until the fourth anniversary of the date of grant in order to be capable of exercise. In addition Andrew Mackintosh has 25,000 options under the 1995 ESO scheme technically capable of exercise, although currently the option price is above the current market price.

Outside appointments

The Board allows Executive Directors to accept appropriate outside non-executive appointments provided the aggregate commitment is compatible with their duties as Executive Directors. The Executive Director concerned may retain fees paid for these services, which will be subject to approval by the Board.

The Executive Directors currently hold no outside non-executive appointments.

Independent Non-Executive Directors

Chairman

Under an arrangement between the Company and Imperialise Limited, Nigel Keen is retained to act as Chairman of the Company. Nigel Keen's fees were £66,000 (2004 £66,000) for his services for which he must account to Imperialise Limited. In addition Imperialise Limited has been paid a sum equivalent to the National Insurance on these fees of £8,400 per annum. Imperialise Limited is responsible for the cost of National Insurance on payments to Nigel Keen, whereas National Insurance contributions in respect of the other Non-Executive Directors are made directly to the UK Inland Revenue and therefore not included in the table below. In addition, Imperialise Limited was paid £120,000 for Nigel Keen's services as Chief Executive for the period between 18 November 2004 and 31 March 2005, during which time the Medical business was successfully sold.

Nigel Keen's initial period of appointment as a Non-Executive Director was for three years commencing 25 February 1999, subject to retirement by rotation. His term of appointment was extended by the Oxford Instruments Board for a further three years commencing in February 2002 and again in February 2005, subject to retirement by rotation. The appointment may be terminated by either party giving not less than six months' notice.

Non-Executive Directors

Non-Executive Directors receive fixed fees agreed by the full Board after reference to similar roles in an appropriate comparator group of companies and reimbursement of expenses incurred in attending Board and other meetings. It is the Board's policy for the Non-Executive Directors to be paid a level of fee that reflects the time commitments and responsibilities of the role and is sufficient to attract individuals with appropriate knowledge and experience. The Chairman and Non-Executive Directors receive no other benefits.

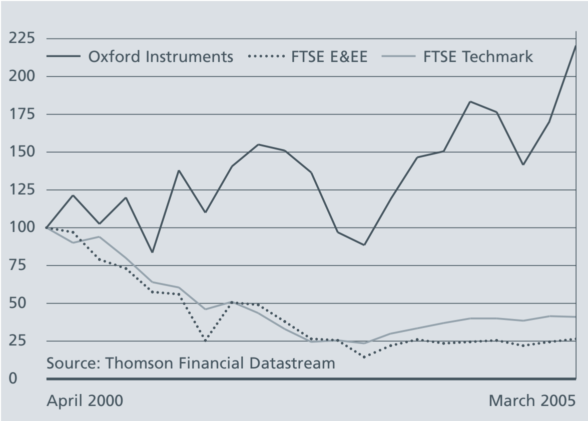
Mike Brady has served as a Non-Executive Director for nine years. Upon the recommendation of the Nomination Committee it was agreed by the full Board to extend Mike Brady's term of appointment by a further three years with effect from 1 August 2004. This appointment is to be subject to annual approval by shareholders.

Remuneration of the Chairman and Non-Executive Directors:

	2005 £000	2004 £000
Nigel Keen, Chairman	**74**	72
Mike Brady	**25**	25
Peter Hill	**2**	25
Mike Hughes	**10**	–
Peter Morgan	**25**	25
Bernard Taylor	**25**	25
Total	**161**	172

Performance graph

The graph below shows for the five years ended 31 March 2005 the Total Shareholder Return (TSR) on a holding of the Company's ordinary shares compared with a hypothetical holding of shares made up of shares of the same kind and number as those by reference to which the FTSE Techmark and FTSE Electronic and Electrical Equipment are calculated. These indices have been chosen as they are considered to be the most appropriate comparator groups for the Company. TSR has been calculated by reference to the relevant share price for each constituent company assuming dividends are reinvested.



In accordance with the Directors' Remuneration Report Regulations, the four tables setting out the Executive and Non-Executive Directors' remuneration, pensions and share options contained within the report have been audited; the statements of policy have not been audited.

This report was adopted by the Remuneration Committee at a meeting on 24 May 2005 and has been approved subsequently by the Board for submission to shareholders at the Annual General Meeting to be held on 20 September 2005.

Nigel Keen Chairman of the Remuneration Committee
3 June 2005

Company law requires the Directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and Group and of the profit or loss for that year.

In preparing those financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards 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 and Group will continue in business.

The Directors are also responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and Group and to prevent and detect fraud and other irregularities.

We have audited the financial statements on pages 36 to 63. We have also audited the information in the Directors' Remuneration Report that is described as having been audited.

This report is made solely to the Company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The Directors are responsible for preparing the Annual Report and the Directors' Remuneration Report. As described on page 34, this includes responsibility for preparing the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board, the Listing Rules of the Financial Services Authority, and by our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' Report is not consistent with the financial statements, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding Directors' remuneration and transactions with the Group is not disclosed.

We review whether the Corporate Governance Statement on pages 22 to 27 reflects the Company's compliance with the nine provisions of the 2003 FRC Code specified for our review by the Listing Rules, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

We read the other information contained in the Annual Report, including the Corporate Governance Statement and the unaudited part of the Directors' Remuneration Report, and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

Basis of audit opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements and the part of the Directors' Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements and the part of the Directors' Remuneration Report to be audited are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements and the part of the Directors' Remuneration Report to be audited.

Opinion

In our opinion:

- the financial statements give a true and fair view of the state of affairs of the Company and the Group as at 31 March 2005 and of the profit of the Group for the year then ended; and
- the financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985.

KPMG Audit Plc Chartered Accountants Registered Auditor
3 June 2005

The following principal accounting policies have been applied consistently, except for the treatment of the Group ESOP Trust as described below, in dealing with items which are considered material to the Group's financial statements.

Basis of presentation of financial statements

The financial statements have been prepared under the historical cost convention and in accordance with applicable accounting standards. There is no material difference between reported and historical profit.

As defined in FRS 3 'Reporting Financial Performance' discontinued operations are clearly separate operations which materially affect the nature and focus of the reporting entity's operations and which have been sold or permanently terminated either during the financial year or during the subsequent period up to the date of approval of the accounts. The comparatives are restated to reflect those businesses as discontinued. All other operations are classified as continuing operations.

New accounting policy

The Group has adopted UITF 38 'Accounting for ESOP Trusts' and the related amendments to UITF 17 'Employee Share Schemes' in the year. In previous periods the purchase cost of these shares were treated as fixed asset investments. The effect of UITF 38 has been to recognise the net carrying value of shares held by the trust as a deduction in shareholders' funds rather than as a fixed asset investment. The impact of the change in accounting policy is disclosed in Note 25 on the Financial Statements.

Basis of consolidation

The consolidated financial statements include the accounts of the Company and its subsidiary undertakings made up to 31 March 2005. Unless otherwise stated, the acquisition method of accounting has been adopted. Under this method, the results of subsidiary undertakings acquired or disposed of in the year are included in the consolidated profit and loss account from the date of acquisition or up to the date of disposal.

An associate is an undertaking in which the Group has a long term interest, usually from 20% to 50% of the equity voting rights and over which it exercises significant influence. Where the holding is in excess of 20%, but there is no significant influence, the investment is stated at the lower of cost and net realisable value. A joint venture is an undertaking in which the Group has a long term interest and over which it exercises joint control. The Group's share of the profits less losses of associates and of joint ventures is included in the consolidated profit and loss account and its interest in their net assets is included in investments in the consolidated balance sheet, whilst it is considered that joint control exists. During the year ended 31 March 2004, the Group disposed of its interest in its joint venture, Oxford Magnet Technology Limited (see Note 16 on the Financial Statements).

All significant intra-group transactions have been eliminated on consolidation. Under Section 230(4) of the Companies Act 1985 the Company is exempt from the requirement to present its own profit and loss account. The profit for the financial year dealt with in the financial statements of the holding company was £6.9 million (2004 £7.6 million).

Goodwill

Purchased goodwill arising on consolidation in respect of acquisitions before 1 April 1998, when FRS 10 'Goodwill and intangible assets' was adopted, was written off to reserves in the year of acquisition. When a subsequent disposal occurs any related goodwill previously written off to reserves is written back through the profit and loss account as part of the profit or loss on disposal.

Purchased goodwill (representing the excess of the fair value of the consideration given and associated costs over the fair value of the separable net assets acquired) arising on consolidation in respect of acquisitions since 1 April 1998 is capitalised and is amortised to nil by equal annual instalments over its estimated useful life. On the subsequent disposal or termination of a business acquired since 1 April 1998, the profit or loss on disposal or termination is calculated after charging the unamortised amount of any related goodwill.

In the Company's financial statements, investments in subsidiary undertakings, associates and joint ventures are stated at cost, less provisions.

Turnover

Turnover, which excludes value added tax and similar sales based taxes, represents sales to external customers of products and services and is stated before commissions payable to agents. Turnover is recognised on shipment, except for service contracts and long term contracts. Turnover from contracts for maintenance and support is recognised on a pro-rata basis over the contract period. Turnover recorded at the time of shipment includes an allowance for installation where the estimated warranty and installation costs are accrued in full at the same time. Warranty costs are based on the historical relationship between actual costs incurred and the relevant turnover exposure. The Group reviewed its policy regarding revenue recognition following the publication of amendment Note G to FRS 5: 'Reporting the substance of transactions: Revenue recognition'. The application note does not have a significant effect on the revenue recognition policy of the Group.

Long term contracts

Contracts which take more than six months to complete and are significant in size are included in the financial statements to reflect progress towards completion. Turnover includes the value of work carried out during the year in respect of these long term contracts including amounts not invoiced to customers. Profit recognition reflects the stage reached, the estimated costs to complete and the degree of risk remaining on each long term contract.

Stocks
Stocks and work in progress are valued at the lower of cost, including materials, direct labour and an attributable proportion of production overheads, and net realisable value, net of payments on account. Provision is made for obsolete, slow moving and defective stock where appropriate in the light of recent usage, expected future requirements, new product introduction plans and likely realisable values. The Group uses demonstration equipment to sell to customers. The majority of demonstration equipment is held within stock. All categories of demonstration equipment are written down during use and then are actively marketed from time to time in order to rotate assets so that as the older items are sold they are replaced, as necessary, by new equipment.

Work in progress on long-term contracts is valued at cost, net of amounts taken to cost of sales, after deducting foreseeable losses and progress payments not matched with turnover. Amounts recoverable on contracts are included in debtors and represent turnover recognised in excess of payments on account. Work in progress usually includes costs incurred on fixed price contracts to deliver technically complex unique custom built products. To ascertain whether any provision for future contract losses is needed, regular technical and financial reviews of these contracts are undertaken. These reviews involve estimating the likely cost to complete the contract based on an assessment of the outstanding technical risks and the resources required using the best information available at the time.

Cash and liquid resources
Cash, for the purpose of the cash flow statement, comprises cash in hand and deposits repayable on demand, less overdrafts payable on demand.

Liquid resources are current asset investments which are disposable without curtailing or disrupting the business and are either readily convertible into known amounts of cash at or close to their carrying values or traded in an active market. Liquid resources comprise term deposits of less than one year (other than cash).

Research and development and grants
Research and development expenditure, net of the relevant proportion of grants receivable, is charged to the profit and loss account in the year in which it is incurred, unless it is recoverable under a customer contract when it is carried forward as work in progress at the lower of cost and net realisable value.

Depreciation
Depreciation is calculated on a straight line basis to write off the cost less estimated residual value of tangible fixed assets in equal instalments over their estimated useful lives using the following annual rates:

Freehold land	Nil
Freehold buildings, long leasehold land and buildings	2%
Furniture and fittings	10%
Machinery and other equipment	10% to 20%
Computer equipment	25%
Vehicles	25%

Leasehold land and buildings where the period of the lease is less than 50 years are written off on a straight line basis over the remaining period of the lease.

Taxation
The charge for taxation is based on the profit for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes. Deferred tax is recognised, without discounting, in respect of all timing differences between the treatment of certain items for taxation and accounting purposes which have arisen but not reversed by the balance sheet date, except as otherwise required by FRS 19.

Leases
Operating lease rentals are charged to the profit and loss account on an accruals basis. The Group has no significant leases of a capital nature.

Pensions
Under the transitional arrangements of FRS 17, the Group has continued to account for pensions in accordance with SSAP 24. The cost of providing retirement pensions and related benefits is assessed in accordance with the advice of qualified independent actuaries and is charged to the profit and loss account as a constant percentage of employees' earnings over the periods benefiting from the employees' services. The difference between the charge to the profit and loss account and the contributions paid to the schemes is shown as an asset or liability in the balance sheet and an appropriate deferred tax adjustment is made.

Foreign currencies and financial derivatives
The Group enters into forward exchange contracts to mitigate the currency exposures that arise on sales and purchases denominated in foreign currencies.

Transactions in foreign currencies are translated into sterling at appropriate forward contract rates or the rate ruling on the date of transaction where no forward cover exists. Monetary assets and liabilities denominated in foreign currencies are translated at the rates ruling at the balance sheet date or at appropriate forward contract rates. Exchange profits and losses arising from the above are dealt with in the profit and loss account with the exception of differences on foreign currency borrowings to the extent that they are used to finance the net assets of foreign subsidiaries. These are taken directly to reserves together with the exchange difference on the net assets of the related investments.

For foreign entities, profits and losses are translated at the average exchange rate for the year, and assets and liabilities are translated at the rates ruling at the balance sheet date. The exchange differences arising from translating overseas investments are taken directly to reserves.

	Notes	Continuing operations: Before exceptional items £m	Continuing operations: Exceptional items £m	Continuing operations: Sub-total £m	Discontinued operations £m	**2005 £m**
Turnover						
Group and share of joint venture turnover		156.5	–	156.5	25.6	**182.1**
Less share of joint venture turnover		–	–	–	–	**–**
Group turnover (including acquisitions of £7.5m)	1,2	156.5	–	156.5	25.6	**182.1**
Cost of sales	3	(110.4)	(1.9)	(112.3)	(13.2)	**(125.5)**
Gross profit/(loss)		46.1	(1.9)	44.2	12.4	**56.6**
Net operating expenses	3	(39.8)	(3.8)	(43.6)	(12.5)	**(56.1)**
Group operating profit/(loss) before goodwill amortisation		7.4	(5.7)	1.7	(0.1)	**1.6**
Goodwill amortisation		(1.1)	–	(1.1)	–	**(1.1)**
Group operating profit/(loss) (including acquisition profit of £0.3m)		6.3	(5.7)	0.6	(0.1)	**0.5**
Share of operating loss of joint venture		–	–	–	–	**–**
Total operating profit/(loss) Group and share of joint venture		6.3	(5.7)	0.6	(0.1)	**0.5**
Gain on disposal of discontinued business before goodwill	16	–	–	–	6.0	**6.0**
Gain on disposal of joint venture before goodwill		–	–	–	–	**–**
Goodwill previously written off against reserves	16	–	–	–	(3.6)	**(3.6)**
Profit on the disposal of property		–	0.2	0.2	–	**0.2**
Profit/(loss) before interest and tax	1	6.3	(5.5)	0.8	2.3	**3.1**
Total net interest receivable/(payable)	4	0.5	–	0.5	–	**0.5**
Profit/(loss) on ordinary activities before tax	2,5	6.8	(5.5)	1.3	2.3	**3.6**
Tax on profit/(loss) on ordinary activities	8	(2.8)	0.9	(1.9)	(0.1)	**(2.0)**
Profit/(loss) for the financial year attributable to shareholders		4.0	(4.6)	(0.6)	2.2	**1.6**
Dividends payable to shareholders	10					**(15.8)**
Retained loss for the financial year	26					**(14.2)**

	Notes	pence	pence	pence	pence	**pence**
Earnings per share	11					
Basic earnings per share before goodwill amortisation		10.9	(9.9)	1.0	4.5	**5.5**
Basic and diluted earnings per share		8.7	(9.9)	(1.2)	4.5	**3.3**
Dividends per share	10					**33.4**

	Notes	Continuing operations: Before exceptional items £m	Continuing operations: Exceptional items and terminated business £m	Continuing operations: Interest in joint venture £m	Sub-total £m	Discontinued operations £m	2004 £m
Turnover							
Group and share of joint venture turnover		147.6	–	10.8	158.4	34.7	193.1
Less share of joint venture turnover	16	–	–	(10.8)	(10.8)	–	(10.8)
Group turnover	1,2	147.6	–	–	147.6	34.7	182.3
Cost of sales	3	(102.8)	–	–	(102.8)	(19.0)	(121.8)
Gross profit/(loss)		44.8	–	–	44.8	15.7	60.5
Net operating expenses	3	(37.6)	(1.6)	–	(39.2)	(15.6)	(54.8)
Group operating profit/(loss) before goodwill amortisation		7.9	(1.6)	–	6.3	0.1	6.4
Goodwill amortisation		(0.7)	–	–	(0.7)	–	(0.7)
Group operating profit/(loss)		7.2	(1.6)	–	5.6	0.1	5.7
Share of operating loss of joint venture	16	–	–	(0.2)	(0.2)	–	(0.2)
Total operating profit/(loss) Group and share of joint venture		7.2	(1.6)	(0.2)	5.4	0.1	5.5
Gain on disposal of discontinued business before goodwill		–	–	–	–	–	–
Gain on disposal of joint venture before goodwill	16	–	–	6.8	6.8	–	6.8
Goodwill previously written off against reserves	16	–	–	(0.2)	(0.2)	–	(0.2)
Profit on the disposal of property		–	–	–	–	–	–
Profit/(loss) before interest and tax	1	7.2	(1.6)	6.4	12.0	0.1	12.1
Total net interest receivable/(payable)	4	(0.1)	–	(0.1)	(0.2)	–	(0.2)
Profit/(loss) on ordinary activities before tax	2,5	7.1	(1.6)	6.3	11.8	0.1	11.9
Tax on profit/(loss) on ordinary activities	8	(2.1)	0.4	0.1	(1.6)	(0.3)	(1.9)
Profit/(loss) for the financial year attributable to shareholders		5.0	(1.2)	6.4	10.2	(0.2)	10.0
Dividends payable to shareholders	10						(3.9)
Retained profit for the financial year	26						6.1

	Notes	pence	pence	pence	pence	pence	pence
Earnings per share	11						
Basic earnings per share before goodwill amortisation		12.0	(2.4)	13.7	23.3	(0.6)	22.7
Basic and diluted earnings per share		10.6	(2.4)	13.7	21.9	(0.6)	21.3
Dividends per share	10						8.4

Group Statement of Total Recognised Gains and Losses year ended 31 March 2005

	2005 £m	2004 £m
Profit for the financial year	**1.6**	10.0
Exchange differences on foreign currency net investments of the Group	**0.1**	(2.8)
Total recognised gains and losses relating to the financial year	**1.7**	7.2

	Notes	Group 2005 £m	Group 2004 As restated £m	Company 2005 £m	Company 2004 As restated £m
Fixed assets					
Intangible assets – goodwill	12	**9.3**	2.6	**–**	–
Tangible assets	13	**28.6**	32.6	**0.6**	0.6
Subsidiary undertakings	14	**–**	–	**66.7**	66.6
Other investments	14	**1.6**	1.6	**1.1**	1.1
Total fixed assets		**39.5**	36.8	**68.4**	68.3
Current assets					
Stocks	18	**23.9**	28.5	**–**	–
Debtors	19	**47.5**	58.9	**48.7**	68.0
Cash at bank and in hand	30	**29.7**	23.2	**34.7**	18.9
		101.1	110.6	**83.4**	86.9
Creditors: Amounts falling due within one year					
Bank loans and overdrafts	30	**(3.2)**	(2.5)	**(4.3)**	(0.7)
Other creditors	20	**(44.9)**	(47.5)	**(26.4)**	(25.4)
		(48.1)	(50.0)	**(30.7)**	(26.1)
Net current assets		**53.0**	60.6	**52.7**	60.8
Total assets less current liabilities		**92.5**	97.4	**121.1**	129.1
Creditors: Amounts falling due after one year	21	**(1.1)**	–	**–**	–
Provisions for liabilities and charges	22	**(9.4)**	(5.3)	**(0.6)**	(0.1)
Net assets employed		**82.0**	92.1	**120.5**	129.0

	Notes	Group 2005 £m	Group 2004 As restated £m	Company 2005 £m	Company 2004 As restated £m
Capital and reserves					
Called up share capital	24	**2.4**	2.4	**2.4**	2.4
Share premium account	25	**19.4**	19.0	**19.4**	19.0
Investment in own shares	25	**(2.7)**	(2.7)	**(2.7)**	(2.7)
Other reserves	25	**16.0**	16.0	**7.7**	7.7
Profit and loss account	25	**46.9**	57.4	**93.7**	102.6
Equity shareholders' funds	26	**82.0**	92.1	**120.5**	129.0

The financial statements were approved by the Board of Directors on 3 June 2005 and signed on its behalf by:

Jonathan Flint Director **Martin Lamaison** Director

	Notes	2005 £m	2004 £m
Net cash inflow from operating activities	27	**7.1**	17.8
Returns on investments and servicing of finance	28	**0.5**	(0.1)
Taxation		**(2.2)**	(2.4)
Capital expenditure and financial investment	28	**(2.4)**	(2.2)
Acquisitions	15	**(5.8)**	(0.2)
Disposals	16	**24.0**	8.5
Equity dividends paid		**(15.7)**	(3.9)
Cash inflow before management of liquid resources and financing		**5.5**	17.5
Management of liquid resources	28	**(0.4)**	(14.8)
Financing	28	**0.4**	0.2
Increase in cash in the year		**5.5**	2.9

Reconciliation of Net Cash Flow to Movement in Net Funds year ended 31 March 2005

	Notes	2005 £m	2004 £m
Increase in cash in the year		**5.5**	2.9
Change in liquid resources	28	**0.4**	14.8
Translation difference		**(0.1)**	(0.3)
Movement in net funds in the year		**5.8**	17.4
Opening net funds		**20.7**	3.3
Closing net funds	29	**26.5**	20.7

1 SEGMENTAL INFORMATION – ANALYSIS BY WHOLLY-OWNED BUSINESS

	Continuing operations Before exceptional items £m	Exceptional items £m	Sub-total £m	Discontinued operations £m	**2005 £m**
Turnover					
Analytical	69.8	–	69.8	–	**69.8**
Superconductivity	86.7	–	86.7	–	**86.7**
Medical	–	–	–	25.6	**25.6**
	156.5	–	156.5	25.6	**182.1**
Profit/(loss) before interest and tax					
Analytical	6.6	(2.4)	4.2	–	**4.2**
Superconductivity	0.8	(3.1)	(2.3)	–	**(2.3)**
Medical	–	–	–	2.3	**2.3**
	7.4	(5.5)	1.9	2.3	**4.2**
Goodwill amortisation	(1.1)	–	(1.1)	–	**(1.1)**
	6.3	(5.5)	0.8	2.3	**3.1**
Net operating assets					
Analytical	25.1	–	25.1	–	**25.1**
Superconductivity	27.1	–	27.1	–	**27.1**
	52.2	–	52.2	–	**52.2**

	Continuing operations Before exceptional items £m	Exceptional items and terminated business £m	Sub-total £m	Discontinued operations £m	2004 £m
Turnover					
Analytical	58.5	–	58.5	–	58.5
Superconductivity	89.1	–	89.1	–	89.1
Medical	–	–	–	34.7	34.7
	147.6	–	147.6	34.7	182.3
Profit/(loss) before interest and tax					
Analytical	3.7	–	3.7	–	3.7
Superconductivity	4.2	(0.5)	3.7	–	3.7
Medical	–	(1.1)	(1.1)	0.1	(1.0)
	7.9	(1.6)	6.3	0.1	6.4
Goodwill amortisation	(0.7)	–	(0.7)	–	(0.7)
	7.2	(1.6)	5.6	0.1	5.7
Net operating assets					
Analytical	24.6	–	24.6	–	24.6
Superconductivity	30.2	–	30.2	–	30.2
Medical	–	–	–	11.8	11.8
	54.8	–	54.8	11.8	66.6

Details of the businesses are set out on pages 8 to 10. Exceptional items are detailed in Note 3. Discontinued operations comprise the Medical business sold in March 2005 (see Note 16).

1 SEGMENTAL INFORMATION – ANALYSIS BY WHOLLY-OWNED BUSINESS continued

The net operating assets comprise:

	2005 £m	2004 £m
Tangible assets	**28.6**	32.6
Net working capital	**23.6**	34.0
Net operating assets	**52.2**	66.6

The net operating assets reconcile to Group net assets as follows:

	2005 £m	2004 As restated £m
Net operating assets	**52.2**	66.6
Current taxation	**(1.0)**	(1.8)
Deferred taxation	**3.8**	5.2
Amounts due for acquisitions	**(2.6)**	–
Non-operating provisions	**(4.9)**	–
Dividends payable	**(2.9)**	(2.8)
Closing net cash	**26.5**	20.7
Goodwill	**9.3**	2.6
Investments	**1.6**	1.6
Group net assets employed	**82.0**	92.1

2 SEGMENTAL INFORMATION – GEOGRAPHICAL ANALYSIS

	UK £m	Continental Europe £m	North America £m	Far East £m	Rest of World £m	**2005 £m**
Group turnover by destination						
Group and share of joint venture	19.7	36.8	67.2	54.9	3.5	**182.1**
Adjustment for share of trading between Group and joint venture	–	–	–	–	–	**–**
Less share of joint venture external turnover	–	–	–	–	–	**–**
Group turnover to third parties	19.7	36.8	67.2	54.9	3.5	**182.1**
Including discontinued operations	*1.8*	*11.5*	*8.7*	*2.6*	*1.0*	***25.6***
Group turnover by origin						
Group and share of joint venture	137.2	5.3	39.6	–	–	**182.1**
Less share of joint venture turnover	–	–	–	–	–	**–**
Group turnover to third parties	137.2	5.3	39.6	–	–	**182.1**
Including discontinued operations	*25.6*	–	–	–	–	***25.6***
Profit/(loss) before tax by origin						
Group operating profit by origin	0.8	0.2	5.2	–	–	**6.2**
Share of operating loss of joint venture	–	–	–	–	–	**–**
Exceptional items	(3.3)	(0.9)	(1.5)	–	–	**(5.7)**
Operating (loss)/profit	(2.5)	(0.7)	3.7	–	–	**0.5**
Including discontinued operations	*(0.1)*	–	–	–	–	***(0.1)***
Gain on disposal of discontinued business before goodwill						**6.0**
Gain on disposal of joint venture before goodwill						**–**
Goodwill previously written off against reserves						**(3.6)**
Profit on disposal of property						**0.2**
Net interest receivable/(payable)						**0.5**
Profit on ordinary activities before tax						**3.6**
Net assets employed by location	63.3	7.4	8.9	2.4	–	**82.0**

2 SEGMENTAL INFORMATION – GEOGRAPHICAL ANALYSIS continued

	UK £m	Continental Europe £m	North America £m	Far East £m	Rest of World £m	2004 £m
Group turnover by destination						
Group and share of joint venture	20.5	49.8	76.5	42.4	3.9	193.1
Adjustment for share of trading between Group and joint venture	1.9	–	–	–	–	1.9
Less share of joint venture external turnover	(0.1)	(12.1)	(0.5)	–	–	(12.7)
Group turnover to third parties	22.3	37.7	76.0	42.4	3.9	182.3
Including discontinued operations	*2.8*	*16.0*	*11.1*	*3.5*	*1.3*	*34.7*
Group turnover by origin						
Group and share of joint venture	154.5	–	38.6	–	–	193.1
Less share of joint venture turnover	(10.8)	–	–	–	–	(10.8)
Group turnover to third parties	143.7	–	38.6	–	–	182.3
Including discontinued operations	*34.7*	–	–	–	–	*34.7*
Profit/(loss) before tax by origin						
Group operating profit by origin	0.9	–	6.4	–	–	7.3
Share of operating loss of joint venture	(0.2)	–	–	–	–	(0.2)
Exceptional items	(0.7)	(0.7)	(0.2)	–	–	(1.6)
Operating (loss)/profit	–	(0.7)	6.2	–	–	5.5
Including discontinued operations	*(0.1)*	*(0.7)*	*(0.2)*	–	–	*(1.0)*
Gain on disposal of discontinued business						–
Gain on disposal of joint venture before goodwill						6.8
Goodwill previously written off against reserves						(0.2)
Profit on disposal of property						–
Net interest receivable/(payable)						(0.2)
Profit on ordinary activities before tax						11.9
Net assets employed by location – as restated	67.0	9.1	14.1	1.9	–	92.1

3 COST OF SALES, NET OPERATING EXPENSES AND EXCEPTIONAL ITEMS

	Continuing operations Before exceptional items £m	Continuing operations Exceptional items £m	Sub-total £m	Discontinued operations £m	**2005 £m**
Cost of sales	110.4	1.9	112.3	13.2	**125.5**
Distribution costs	19.5	–	19.5	7.8	**27.3**
Research and development costs	11.3	–	11.3	1.8	**13.1**
Administrative expenses	7.9	3.8	11.7	2.9	**14.6**
Goodwill amortisation	1.1	–	1.1	–	**1.1**
Net operating expenses	39.8	3.8	43.6	12.5	**56.1**

3 COST OF SALES, NET OPERATING EXPENSES AND EXCEPTIONAL ITEMS continued

	Continuing operations				
	Before exceptional items £m	Exceptional items and terminated business £m	Sub-total £m	Discontinued operations £m	2004 £m
Cost of sales	102.8	–	102.8	19.0	121.8
Distribution costs	19.2	–	19.2	9.7	28.9
Research and development costs	10.4	0.4	10.8	2.1	12.9
Administrative expenses	7.3	1.2	8.5	3.8	12.3
Goodwill amortisation	0.7	–	0.7	–	0.7
Net operating expenses	37.6	1.6	39.2	15.6	54.8

Cost of sales and net operating expenses of the continuing operations for the year ended 31 March 2005 include in relation to acquisitions: cost of sales £3.3m, distribution costs £1.4m, research and development costs £1.3m, administration expenses £0.8m and goodwill amortisation of £0.4m.

Exceptional items and terminated business

Exceptional items for the year ended 31 March 2005 relate to continuing operations. In the year ended 31 March 2004 exceptional items of £1.1m relate to discontinued operations.

Exceptional items can be analysed as follows:

	2005		2004
	Cost of sales £m	**Net operating expenses £m**	Net operating expenses £m
Superconducting wire quality issues	**(1.5)**	**–**	–
Redundancy costs	**–**	**(1.2)**	(1.6)
Post acquisition restructuring	**(0.4)**	**(0.7)**	–
Site closure costs	**–**	**(1.0)**	–
Chief Executive replacement	**–**	**(0.9)**	–
	(1.9)	**(3.8)**	(1.6)

Exceptional items for the year ended 31 March 2005 comprise costs relating to a specific quality issue at the US superconducting wire manufacturing plant, redundancy costs arising in the Superconductivity business and restructuring costs (redundancy expenses, stock write-off and surplus lease costs) following the acquisition of Metorex International Oy and Resonance Instruments Limited in September 2004, costs relating to the closure of the East Grinstead site and expenses associated with the replacement of the Chief Executive.

Exceptional items for the year ended 31 March 2004 comprise redundancy costs incurred as the Medical business reduced its overseas cost base and costs of the Cambridge based operations of Superconductivity prior to the spin out of ARKeX Limited.

Research and development costs

In addition to the £13.1m (2004 £12.9m) charged against research and development, no further costs (2004 £nil) have been charged to cost of sales in respect of funded projects. These figures are stated net of grants receivable of £0.2m (2004 £0.1m). The total research and development costs, gross of funding and stock movements, were £13.3m (2004 £13.1m).

4 TOTAL NET INTEREST RECEIVABLE/(PAYABLE)

	2005 £m	2004 £m
Interest receivable on deposits at short call	**0.7**	0.2
Interest payable and similar charges on bank loans and overdrafts	**(0.2)**	(0.3)
Group net interest receivable/(payable)	**0.5**	(0.1)
Share of joint venture net interest payable	**–**	(0.1)
Total net interest receivable/(payable)	**0.5**	(0.2)

5 PROFIT/(LOSS) ON ORDINARY ACTIVITIES BEFORE TAX

	2005 £m	2004 £m
Profit/(loss) on ordinary activities before tax is stated after (charging)/crediting:		
Depreciation of tangible fixed assets	**(4.4)**	(4.7)
Amortisation of Oxford Instruments plc shares held under the Long Term Incentive Plan	**–**	(0.2)
Amortisation of goodwill	**(1.1)**	(0.7)
Net profit on disposal of fixed assets	**0.1**	0.1
Rentals payable in respect of operating leases:		
Hire of plant, machinery and vehicles	**(1.1)**	(1.0)
Other operating leases	**(2.1)**	(2.3)
Fees paid to auditor and its associates:		
Services as auditors	**(0.2)**	(0.2)
Non-audit services	**(0.4)**	–
Total fees paid to auditor and its associates	**(0.6)**	(0.2)

The fees for auditing the parent company's accounts were £58,000 (2004 £48,000). Fees paid to the auditor and its associates in respect of non-audit services totalled £391,000 (2004 £13,000). KPMG Corporate Finance fees incurred by Oxford Instruments plc for the disposal of the Medical business were £325,000. Fees were paid to KPMG Audit Plc of £23,000 for vendor due diligence, £12,000 for IFRS advisory work and £11,000 for other audit services. Tax services were provided to a number of the overseas subsidiaries and totalled £20,000.

6 EMPLOYEES

The average number of people employed by the Group (including Directors) during the year was as follows:

	2005	2004
Production	**809**	777
Sales and marketing	**354**	364
Research and development	**207**	229
Administration	**211**	167
Total average number of employees	**1,581**	1,537

The number of employees at 31 March was:

By country	**2005**	2004
UK	**691**	867
USA	**397**	438
Germany	**32**	44
Japan	**49**	49
France	**18**	27
Finland	**56**	–
Italy	**–**	15
Spain	**–**	15
Rest of World	**52**	52
Total employees	**1,295**	1,507

By business	**2005**	2004
Analytical	**643**	549
Superconductivity	**652**	684
Medical	**–**	274
Total employees	**1,295**	1,507

The aggregate payroll costs (including Directors) were as follows:

	2005 £m	2004 £m
Wages and salaries	**48.1**	48.3
Social security costs	**4.9**	4.8
Other pension costs	**5.7**	4.2
Total payroll costs	**58.7**	57.3

7 PENSIONS

	2005 £m	2004 £m
The total pension cost for the Group was as follows:		
Defined benefit scheme – UK	**3.0**	3.4
Defined benefit scheme – Others	**0.4**	0.4
Defined contribution schemes	**0.6**	0.4
Total pension costs before Medical disposal	**4.0**	4.2
Defined benefit scheme – UK – Medical deficit crystallised on disposal	**1.7**	–
Total pension costs	**5.7**	4.2

The Group operates a number of pension schemes throughout the world. The major schemes, covering approximately half of the Group's employees, are of the defined benefit type. The assets of such schemes are held in separate trustee administered funds.

Defined benefit scheme – United Kingdom

In the UK the Group and all participating employees hired before 1 April 2001 contribute to the defined benefit Oxford Instruments Pension Scheme. The cost of this scheme is assessed in accordance with the advice of a qualified independent actuary using the projected unit method. The last actuarial valuation of this scheme was at 31 March 2003 when the actuary advised that the regular company funding rate for the Scheme on current market conditions should be 11.6% over the long term. The principal assumptions underlying this rate were that the return on investments held in respect of liabilities before and after members retire would be 7.5% and 5.25% per annum respectively, salary increases would average 3.5% per annum and future pensions in payment would increase by 2.3% per annum.

At 31 March 2003, the date of the last actuarial valuation, the market value of the assets of this scheme was £69.9m. The Minimum Funding Requirement funding level at 31 March 2003 was 106%. The assets represented 76% of the value of the benefits that had accrued to members at that date based on the assumptions set out above including assumed future increases in earnings. This shortfall is being funded over the remaining working life of the scheme members, estimated to be 16 years giving rise to an overall charge for the year of 17.1% (2004 17.2%) of pensionable salaries.

During the year the Group contributed to the Scheme at a rate of 14.5% (2004 13%) of pensionable salary. The charge in excess of contributions has resulted in the prior year prepayment of £0.2m being replaced by an accrual of £0.3m at 31 March 2005.

Defined benefit scheme – Others

The Group also provides a defined benefit pension scheme in the USA. At the year end the Japanese scheme, which had a small surplus, was in the process of being closed with no further accrual of service. A new defined contribution scheme is being introduced to replace it.

Defined contribution schemes

Since 1 April 2001 all new joiners in the UK have been offered participation in the defined contribution Oxford Instruments Stakeholder Plan. During the year ended 31 March 2005 the Company paid contributions to the scheme on a variable scale up to a maximum of 4% for members who contributed at a rate of at least 2%. Employees make contributions at a rate of their choice. Other defined contribution schemes are the Oxford Instruments 1998 Executive Pension Scheme, a UK scheme, and the 401k defined contribution plan in the USA.

FRS 17 retirement benefits

The two largest defined benefit schemes in the UK and USA have been assessed as at 31 March 2005 in the manner prescribed by FRS 17 in order to provide an indication of how these schemes would have been reflected in the Group Accounts under FRS 17. These further disclosures are included below.

For FRS 17 purposes, the last full valuations of the main schemes were updated to 31 March 2005 by qualified independent actuaries. The full actuarial valuation for the USA scheme at 1 January 2004 was updated to 31 December 2004. Results at 31 March 2005 have been taken to be the same as those at 31 December 2004. The following assumptions were used:

	United Kingdom			USA		
	2005 %	2004 %	2003 %	**2005 %**	2004 %	2003 %
Rate of general increase in salaries	**3.90**	3.90	3.50	**4.00**	4.00	4.00
Rate of increase of pensions in payment	**2.70**	2.70	2.30	**0.00**	0.00	0.00
Discount rate for scheme liabilities	**5.40**	5.60	5.50	**5.25**	6.00	6.00
Inflation	**2.90**	2.90	2.50	**3.00**	3.00	3.00

7 PENSIONS continued

The assets and liabilities of the schemes, together with the expected return on the schemes' assets, are shown below:

	United Kingdom Expected long term rate of return			USA Expected long term rate of return		
	2005 %	2004 %	2003 %	**2005 %**	2004 %	2003 %
Equities	**8.0**	8.0	8.0	**8.5**	8.5	8.5
Bonds	**–**	–	5.0	**5.25**	6.0	–
Corporate bonds	**–**	5.6	–	**–**	–	–
Gilts	**4.7**	4.7	–	**–**	–	–
Absolute return funds	**7.5**	7.5	–	**–**	–	–
Property	**6.5**	6.5	6.5	**7.0**	7.0	–
Cash and other assets	**4.0**	4.0	4.0	**–**	–	–

	United Kingdom Market value			USA Market value			Total Market value		
	2005 £m	2004 £m	2003 £m	**2005 £m**	2004 £m	2003 £m	**2005 £m**	2004 £m	2003 £m
Equities	**56.1**	49.7	49.2	**1.5**	1.5	2.2	**57.6**	51.2	51.4
Bonds	**–**	–	10.0	**1.4**	1.0	–	**1.4**	1.0	10.0
Corporate bonds	**–**	10.2	–	**–**	–	–	**–**	10.2	–
Gilts	**23.6**	10.3	–	**–**	–	–	**23.6**	10.3	–
Absolute return funds	**8.5**	8.1	–	**–**	–	–	**8.5**	8.1	–
Property	**8.8**	7.5	4.1	**0.3**	0.2	–	**9.1**	7.7	4.1
Cash and other assets	**1.6**	3.0	7.0	**–**	–	–	**1.6**	3.0	7.0
Total scheme assets	**98.6**	88.8	70.3	**3.2**	2.7	2.2	**101.8**	91.5	72.5
Present value of scheme liabilities	**(139.1)**	(124.3)	(101.5)	**(6.1)**	(4.4)	(4.5)	**(145.2)**	(128.7)	(106.0)
Deficit in the schemes	**(40.5)**	(35.5)	(31.2)	**(2.9)**	(1.7)	(2.3)	**(43.4)**	(37.2)	(33.5)
Related deferred tax asset	**12.2**	10.7	9.4	**1.2**	0.7	0.9	**13.4**	11.4	10.3
Net pension liability	**(28.3)**	(24.8)	(21.8)	**(1.7)**	(1.0)	(1.4)	**(30.0)**	(25.8)	(23.2)

Balance sheet presentation:

	Group 2005 £m	Group As restated 2004 £m
Net assets employed		
Net assets employed	**82.0**	92.1
Adjust for SSAP 24 pension assets and liabilities	**2.9**	0.7
Net pension liability under FRS 17	**(30.0)**	(25.8)
Net assets employed including FRS 17 pension liability	**54.9**	67.0
Capital and reserves		
Profit and loss account	**46.9**	57.4
Adjust for SSAP 24 pension assets and liabilities	**2.9**	0.7
Net pension liability under FRS 17	**(30.0)**	(25.8)
Profit and loss including FRS 17 pension liability	**19.8**	32.3

7 PENSIONS continued

An analysis of the approximate defined benefit cost for the year to 31 March 2005 pursuant to FRS 17 is:

	UK 2005 £m	UK 2004 £m	USA 2005 £m	USA 2004 £m	Total 2005 £m	Total 2004 £m
Current service cost	**(2.6)**	(3.0)	**(0.4)**	(0.4)	**(3.0)**	(3.4)
Past service cost	**–**	–	**–**	–	**–**	–
Settlements/curtailments	**1.0**	–	**–**	–	**1.0**	–
Total operating charge	**(1.6)**	(3.0)	**(0.4)**	(0.4)	**(2.0)**	(3.4)
Expected return on pension investments	**6.3**	5.0	**0.2**	0.2	**6.5**	5.2
Interest on pension liabilities	**(7.0)**	(5.6)	**(0.3)**	(0.3)	**(7.3)**	(5.9)
Net return	**(0.7)**	(0.6)	**(0.1)**	(0.1)	**(0.8)**	(0.7)
Total charge to profit and loss account before deduction of tax if FRS 17 is applied	**(2.3)**	(3.6)	**(0.5)**	(0.5)	**(2.8)**	(4.1)

Analysis of amount which would be recognised in the Statement of Total Recognised Gains and Losses (STRGL) if FRS 17 applied:

	UK 2005 £m	UK 2004 £m	USA 2005 £m	USA 2004 £m	Total 2005 £m	Total 2004 £m
Actual return less expected return on pension scheme assets	**1.8**	11.8	**–**	0.3	**1.8**	12.1
Experience gains arising on the scheme liabilities	**–**	1.1	**–**	–	**–**	1.1
Loss on change of assumptions	**(6.8)**	(16.0)	**(1.2)**	–	**(8.0)**	(16.0)
Total actuarial (loss)/profit recognised in STRGL	**(5.0)**	(3.1)	**(1.2)**	0.3	**(6.2)**	(2.8)

Analysis of FRS 17 movements in deficit during the year:

	UK 2005 £m	UK 2004 £m	USA 2005 £m	USA 2004 £m	Total 2005 £m	Total 2004 £m
Deficit at 1 April 2004	**(35.5)**	(31.2)	**(1.7)**	(2.3)	**(37.2)**	(33.5)
Foreign exchange adjustment	**–**	–	**0.1**	0.4	**0.1**	0.4
Current service cost	**(2.6)**	(3.0)	**(0.4)**	(0.4)	**(3.0)**	(3.4)
Past service credit	**1.0**	–	**–**	–	**1.0**	–
Net return	**(0.7)**	(0.6)	**(0.1)**	(0.1)	**(0.8)**	(0.7)
Contributions	**2.3**	2.4	**0.4**	0.4	**2.7**	2.8
Actuarial (loss)/gain	**(5.0)**	(3.1)	**(1.2)**	0.3	**(6.2)**	(2.8)
Deficit at 31 March 2005	**(40.5)**	(35.5)	**(2.9)**	(1.7)	**(43.4)**	(37.2)

For the UK scheme, the full FRS 17 actuarial valuation at 31 March 2003 updated to 31 March 2004 showed a deficit of £35.5m. Company contributions net of expenses of £2.3m (13.3% of pensionable earnings) were made during the year ended 31 March 2005. Contributions for the next year will be at the rate of 14.5% of pensionable earnings, inclusive of expenses. As the scheme is closed to new members, under the projected unit method, the current service cost will increase as the members of the scheme approach retirement.

For the USA scheme contributions of £0.4m (6.3% of pensionable earnings) were made during the year ended 31 December 2004. Contributions for the next year will be at or above the minimum required rate of 2.5% of pensionable earnings.

It is emphasised that the schemes' assets are not intended to be realised in the short term and may be subject to significant change before they are realised. In addition, the schemes' liabilities are derived from cash flow projections over long periods and are affected by changes in the assumptions adopted.

7 PENSIONS continued

History of experience gains and losses if FRS 17 were to be fully adopted:

	UK			USA			Total		
	2005	2004	2003	**2005**	2004	2003	**2005**	2004	2003
Difference between the expected and actual return:									
Amount £m	**1.8**	11.8	(23.5)	**–**	0.3	(0.7)	**1.8**	12.1	(24.2)
% of scheme assets	**2%**	13%	(34%)	**–**	9%	(27%)	**2%**	13%	(33%)
Experience gains and losses on scheme liabilities:									
Amount £m	**–**	1.1	–	**–**	–	–	**–**	1.1	–
% of the present value of the scheme liabilities	**–**	1%	–	**–**	–	–	**–**	1%	–
Total amount recognised in Statement of Total Recognised Gains and Losses:									
Amount £m	**(5.0)**	(3.1)	(25.3)	**(1.2)**	0.3	(0.7)	**(6.2)**	(2.8)	(26.0)
% of the present value of the scheme liabilities	**(4%)**	(3%)	(25%)	**(19%)**	5%	(14%)	**(14%)**	(2%)	(25%)

8 TAX ON PROFIT ON ORDINARY ACTIVITIES

Analysis of tax charge in the year

The charge based on the profit for the year comprises:

	2005 £m	2004 £m
UK corporation tax:		
Adjustments relating to prior years	**–**	0.4
Tax on share of loss of joint venture	**–**	(0.1)
	–	0.3
Foreign tax:		
Tax on profit in the period	**1.1**	3.1
Adjustments relating to prior years	**0.1**	–
	1.2	3.1
Total current tax	**1.2**	3.4
Deferred tax:		
Origination and reversal of timing differences in respect of:		
Profit/(loss) in the period	**0.5**	(0.8)
Adjustment to the estimated recoverable amount of deferred assets arising in previous periods	**0.3**	(0.7)
Total deferred tax (Note 23)	**0.8**	(1.5)
Total tax on profit on ordinary activities	**2.0**	1.9

For discontinued and exceptional items the tax credit has been calculated by comparing the computed taxation charge if these items did not exist to the overall tax charge for the period.

Factors that may affect future tax charges

The Group's overseas tax rates are generally higher than those in the UK. The Group provides for deferred tax assets if it is more likely than not that they will reverse in the future. Deferred tax assets estimated at £7.6m (2004 £5.5m) have not been recognised due to the degree of uncertainty about the utilisation of the underlying tax losses and deductions.

8 TAX ON PROFIT ON ORDINARY ACTIVITIES continued

Factors affecting tax charge for the period

	2005 **£m**	2004 £m
Group profit on ordinary activities before tax	**3.6**	11.9
Group profit on ordinary activities before tax at 30% (UK corporation tax rate)	**1.1**	3.6
Effects of:		
Permanent differences	**(1.4)**	(2.3)
Goodwill amortised	**0.3**	0.2
Short term timing differences	**(0.6)**	0.6
Accounting depreciation in excess of/(less than) tax depreciation	**0.7**	(0.3)
Current tax losses not utilised	**0.7**	0.4
Adjustments relating to prior years' corporation tax	**0.1**	0.4
Net cost of different rates of taxation in overseas undertakings	**0.4**	0.6
Tax losses utilised in the year	**(0.1)**	–
Differences in UK and overseas accounting policies	**–**	0.2
Total current tax	**1.2**	3.4

9 DIRECTORS' REMUNERATION AND INTERESTS

Information on Directors' remuneration, pensions, shareholdings and options is set out on pages 28 to 33 and forms part of these Financial Statements.

10 DIVIDENDS

	2005 **£m**	2004 £m
Interim dividend of 2.4p (2004 2.4p) per share, paid on 24 March 2005	**1.1**	1.1
Special interim dividend of 25.0p (2004 nil) per share, paid on 24 March 2005	**11.8**	–
Proposed final dividend of 6.0p (2004 6.0p) per share, payable on 28 October 2005	**2.9**	2.8
Total dividend of 33.4p (2004 8.4p) per share	**15.8**	3.9

Subject to the approval of the shareholders at the Annual General Meeting on 20 September 2005, the proposed final dividend will be paid on 28 October 2005 to shareholders registered at the close of business on 30 September 2005. The ordinary shares will be quoted ex-dividend on 28 September 2005. The dividends payable on the shares held in trust have been waived (see Note 25).

11 EARNINGS PER SHARE

Earnings per share has been calculated as follows:

	2005 £m	2004 £m
Continuing operations		
Profit for the financial year before goodwill amortisation	**5.1**	5.7
Exceptional items	**(4.6)**	(1.2)
Interest in joint venture	**–**	(0.2)
Net profit on disposal of joint venture	**–**	6.6
Goodwill amortisation	**(1.1)**	(0.7)
Discontinued operations		
Loss for the financial year	**(0.2)**	(0.2)
Net profit on disposal	**2.4**	–
Net profit for the financial year	**1.6**	10.0

	Shares 000	Shares 000
Weighted average ordinary shares in issue during year	**47,090**	46,887
Dilutive effect of employee share options	**497**	243
Diluted weighted average ordinary shares	**47,587**	47,130

12 INTANGIBLE ASSETS – GOODWILL

	Group Total £m
Cost	
At 31 March 2004	4.7
Additions	7.8
At 31 March 2005	**12.5**
Amortisation	
At 31 March 2004	(2.1)
Amortisation	(1.1)
At 31 March 2005	**(3.2)**
Net book value	
At 31 March 2004	2.6
At 31 March 2005	**9.3**

Goodwill arose on the acquisitions of Metorex International Oy and Resonance Instruments Limited in September 2004 and is being written off to the profit and loss account over ten years (see Note 15).

13 TANGIBLE FIXED ASSETS

	Group			Company		
	Property £m	Other fixed assets £m	Total £m	Property £m	Other fixed assets £m	Total £m
Cost						
At 31 March 2004	25.2	44.7	69.9	0.3	1.9	2.2
Exchange adjustments	(0.1)	(0.2)	(0.3)	–	–	–
Additions	0.1	3.1	3.2	–	0.2	0.2
Acquisitions	–	0.2	0.2	–	–	–
Disposals	(0.6)	(1.8)	(2.4)	–	–	–
Disposal of business	(2.0)	(6.9)	(8.9)	–	–	–
At 31 March 2005	**22.6**	**39.1**	**61.7**	**0.3**	**2.1**	**2.4**
Depreciation						
At 31 March 2004	4.9	32.4	37.3	0.1	1.5	1.6
Exchange adjustments	(0.1)	(0.2)	(0.3)	–	–	–
Amounts provided	0.5	3.9	4.4	–	0.2	0.2
Disposals	(0.2)	(1.5)	(1.7)	–	–	–
Disposal of business	(0.8)	(5.8)	(6.6)	–	–	–
At 31 March 2005	**4.3**	**28.8**	**33.1**	**0.1**	**1.7**	**1.8**
Net book value						
At 31 March 2004	20.3	12.3	32.6	0.2	0.4	0.6
At 31 March 2005	**18.3**	**10.3**	**28.6**	**0.2**	**0.4**	**0.6**

Net book value is analysed by fixed asset category as follows:

	Group 2005 £m	Group 2004 £m	**Company 2005 £m**	Company 2004 £m
Property				
Freehold land	**3.7**	3.7	**–**	–
Freehold buildings	**9.9**	10.9	**0.2**	0.2
Long leasehold land and buildings	**4.7**	5.6	**–**	–
Short leasehold land and buildings	**–**	0.1	**–**	–
	18.3	20.3	**0.2**	0.2
Other fixed assets				
Machinery and other equipment	**5.7**	6.0	**–**	–
Fixtures and fittings	**3.2**	4.9	**–**	–
Computer equipment	**1.2**	1.3	**0.4**	0.4
Vehicles	**0.2**	0.1	**–**	–
	10.3	12.3	**0.4**	0.4

The Directors believe the open market value of freehold land and buildings exceeds the book value by approximately £5.2m (2004 £5.6m), which if realised through disposal would create a tax liability of approximately £1.0m (2004 £1.7m). Freehold land is not depreciated, but the remainder of the property gross cost of £18.9m (2004 £21.8m) is depreciated.

14 INVESTMENTS

	Group 2005 £m	Group 2004 As restated £m	**Company 2005 £m**	Company 2004 As restated £m
Shares in subsidiary undertakings	**–**	–	**66.7**	66.6
Other investments	**1.6**	1.6	**1.1**	1.1
	1.6	1.6	**67.8**	67.7

Movements during the year in the investments summarised in the table above were as follows:

	Shares in subsidiary undertakings £m	Executive incentive share schemes £m	Other investments £m
Cost or valuation			
At 31 March 2004 – as reported	66.6	0.8	1.6
Prior year adjustment	–	(0.8)	–
At 31 March 2004 – as restated	66.6	–	1.6
Additions	0.1	–	–
At 31 March 2005	**66.7**	**–**	**1.6**

In accordance with UITF 38 'Accounting for ESOP Trusts' the net carrying value of the shares held by the trust has been recognised as a reduction in shareholders' funds, rather than as a fixed asset investment. See Note 25.

Other investments at 31 March 2005 comprise:

Investment	Principal activity	Percentage of company owned
ARKeX Limited	Supply of gravity-gradiometry exploration and related services to the oil, gas and minerals industries	28.50%
Link Nordiska AB	Scandinavian distributor of Oxford Instruments Microanalysis X-ray systems for chemical elemental analysis	10.00%
Oxford BioSignals Limited	Advanced signal processing and neural network technology delivering advanced health monitoring solutions to medical and engineering markets	7.00%
Oxford Diffraction Limited	X-ray diffraction systems and ancillary products for chemical crystallography and protein structure determination	23.00%
Oxfordshire Biotechnet Limited	Business accommodation and support for start-ups and early-stage bioscience companies	2.45%
Target Systemelectronic GmbH	Measurement instruments for nuclear radiation detection	25.00%
Target Instruments Incorporated	Measurement instruments for nuclear radiation detection	25.00%

15 ACQUISITIONS

Metorex International Oy

On 13 September 2004 the Group acquired 89.5% of the share capital of Metorex International Oy ('Metorex') based in Espoo, Finland. A further 9.6% was acquired during January 2005. At 31 March 2005 the Group owned 99.1% of the share capital of Metorex, with an expectation that the remaining share capital will be acquired in due course. The 0.9% minority interest is not a material value. The total cash consideration was £5.3m of which £4.0m had been paid at 31 March 2005 and the remaining £1.3m is payable by instalments in May 2005 and June 2006.

	Book value £m	Accounting policy adjustments £m	Fair value to the Group £m
Tangible fixed assets	0.1	–	0.1
Stocks	1.4	(0.6)	0.8
Debtors	1.4	–	1.4
Creditors	(1.7)	(0.1)	(1.8)
Provisions	(0.1)	–	(0.1)
Total net assets	1.1	(0.7)	0.4
Goodwill			4.9
Total purchase cost			5.3
Less consideration deferred			(1.3)
Net cash outflow in respect of the purchase			4.0
Less net cash acquired			–
Net cash outflow on acquisition			4.0

The book value of the assets acquired are based on the management accounts at the date of acquisition. The accounting policy adjustments reflect the alignment of accounting policies in respect of stock provisioning and project based contracts. There were no fair value adjustments.

Resonance Instruments Limited

The Group acquired Resonance Instruments Limited based in Witney, Oxfordshire on 21 September 2004 for a net cash consideration of £1.8m. A further £1.3m payment is deferred and payable over the next two years based on future performance and staff retention.

	Book value and fair value to the Group £m
Tangible fixed assets	0.1
Stocks	0.4
Debtors	0.4
Creditors	(0.6)
Provisions	(0.1)
Total net assets	0.2
Goodwill	2.9
Total purchase cost	3.1
Less consideration deferred	(1.3)
Net cash outflow in respect of the purchase	1.8
Less net cash acquired	–
Net cash outflow on acquisition	1.8

The book value of the assets acquired are based on the management accounts at the date of acquisition. No material accounting policy or fair value adjustments were required.

In the prior year ended 31 March 2004 the Group acquired the business and assets of VG Semicon for a total consideration of £0.3m of which £0.2m was payable at the time of acquisition.

16 DISPOSALS

Medical business

On 1 March 2005 the Group sold its Medical business, headquartered in Old Woking, UK. The aggregate gross cash consideration, including the repayment of inter-company loans was £24.0m. The transaction comprised the sale of the entire share capital of certain subsidiaries and the Medical related business and assets within certain other subsidiary companies. The resultant profit on disposal before goodwill was £6.0m. Included within the provisions on disposal is an amount of £1.7m for the related pension deficit.

The results of the Medical business are shown as discontinued operations in the Group profit and loss account on pages 38 and 39.

There was a net profit on disposal of the business as follows:

	£m
Gross cash consideration	24.0
Net tangible assets sold	(12.8)
Net expenses	(1.0)
Provisions	(4.2)
Gain on the sale of net tangible assets	6.0
Less goodwill previously written off against reserves	(3.6)
Net profit on disposal	2.4

Cash received	24.0
Net expenses paid	–
Cash inflow on disposal	24.0

Oxford Magnet Technology

On 4 December 2003 the Company sold its 49% interest in Oxford Magnet Technology ('OMT') to Siemens plc. The proceeds on disposal were £8.5m giving rise to a gain on disposal of £6.8m before goodwill of £0.2m previously written off against reserves. The results of OMT were equity accounted in accordance with FRS 9 for the three months ended 30 June 2003, up to which date it was considered joint control existed, and from this date when it was considered that joint control ceased until the date of disposal, the investment was accounted for as a minority investment in accordance with FRS 2.

17 PRINCIPAL SUBSIDIARY UNDERTAKINGS

	Equity owned by the company %	Country of incorporation	Principal activity
Oxford Instruments Analytical Holdings Ltd	100.0	England	Holding
Oxford Instruments Superconductivity Holdings Ltd	100.0	England	Holding
Oxford Instruments Overseas Holdings Ltd	100.0	England	Holding
Oxford Instruments Analytical Ltd	*100.0	England	Trading
Oxford Instruments Plasma Technology Ltd	*100.0	England	Trading
Oxford Instruments Superconductivity Ltd	*100.0	England	Trading
Oxford Instruments Molecular Biotools Ltd	*100.0	England	Trading
Oxford Instruments Overseas Marketing Ltd	*100.0	England	Marketing
Oxford Instruments Holdings Inc	*100.0	USA	Holding
Oxford Instruments Inc	*100.0	USA	Holding
Oxford Instruments (Tennessee) Inc	*100.0	USA	Holding
Oxford Instruments Measurement Systems LLC	*100.0	USA	Trading
Oxford Instruments X-Ray Technology Inc	*100.0	USA	Trading
Oxford Superconducting Technology	*100.0	USA	Trading
Austin Scientific Company	*100.0	USA	Trading
Oxford Instruments America Inc	*100.0	USA	Distribution
Oxford Instruments Analytical Oy	*99.1	Finland	Trading
Oxford Instruments SAS	*100.0	France	Distribution
Oxford Instruments GmbH	*100.0	Germany	Distribution
Oxford Instruments KK	*100.0	Japan	Distribution
Oxford Instruments (Shanghai) Company Ltd	*100.0	China	Trading
Oxford Instruments Pte Ltd	*100.0	Singapore	Marketing

A full list of the Group companies as at 31 March 2005 is available for inspection at the Company's registered office.

With the exception of holding companies, all the above companies are engaged in advanced instrumentation. Equity owned by subsidiary companies is indicated by an asterisk (*). All the above companies are included in the Group accounts.

18 STOCKS

	Group 2005 £m	Group 2004 £m
Raw materials and consumables	**9.0**	11.8
Work in progress	**10.5**	10.7
Finished goods and goods for resale	**4.4**	6.0
Total stocks	**23.9**	28.5

19 DEBTORS

	Group 2005 £m	Group 2004 £m	Company 2005 £m	Company 2004 £m
Amounts falling due within one year				
Trade debtors	**32.3**	40.5	**–**	–
Amounts recoverable on contracts	**5.4**	8.4	**–**	–
Amounts owed by subsidiary undertakings	**–**	–	**47.6**	67.0
Other debtors	**2.9**	2.2	**0.5**	0.3
Prepayments and accrued income	**3.1**	2.6	**0.2**	0.4
	43.7	53.7	**48.3**	67.7
Amounts falling due after one year				
Deferred tax (see Note 23)	**3.8**	5.2	**0.4**	0.3
Total debtors	**47.5**	58.9	**48.7**	68.0

20 CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	Group 2005 £m	Group 2004 £m	Company 2005 £m	Company 2004 £m
Payments received on account	**3.3**	4.1	**–**	–
Trade creditors	**19.1**	19.4	**0.8**	0.3
Amounts owed to subsidiary undertakings	**–**	–	**21.9**	20.7
Other creditors	**3.6**	1.2	**–**	–
Corporation tax, UK and overseas	**1.3**	2.1	**0.2**	0.2
Payroll tax, social security and sales related taxes	**1.2**	1.9	**–**	–
Accruals and deferred income	**13.5**	16.0	**0.6**	1.4
Proposed dividends	**2.9**	2.8	**2.9**	2.8
Other creditors	**44.9**	47.5	**26.4**	25.4

21 CREDITORS: AMOUNTS FALLING DUE AFTER ONE YEAR

	Group 2005 £m	Group 2004 £m
Other creditors (see Note 30)	**1.1**	–

22 PROVISIONS FOR LIABILITIES AND CHARGES

	Warranty provisions £m	Pension obligations £m	Restructuring provisions £m	Other provisions £m	Group Total £m
At 31 March 2004	4.2	0.9	–	0.2	5.3
Provided in the year	4.4	0.4	6.1	0.6	11.5
Utilised in the year	(4.9)	(0.4)	(0.9)	(0.1)	(6.3)
Released unused	(1.0)	–	–	–	(1.0)
Acquisitions	0.2	–	–	–	0.2
Disposal	(0.3)	–	–	–	(0.3)
At 31 March 2005	**2.6**	**0.9**	**5.2**	**0.7**	**9.4**

Warranty provisions reflect the Group's standard terms and conditions. In general these apply for a year, and, as a result, the majority of the provision is expected to be utilised within a twelve month period. The provision for pension obligations relates to USA pension costs charged to the profit and loss account, but under IRS regulations, not yet paid into the USA defined benefit scheme. These pension payments are expected to be made over several future accounting periods. Restructuring provisions comprise costs associated with the closure of the East Grinstead Site, disposal of the Medical business and remaining amounts for the restructuring of acquisitions made during the year. Other provisions relate to replacement of the Chief Executive and to surplus leases. The lease provisions reflect the discounted value of the expected shortfall in rental income against rental costs and will be used over the related lease periods. The £0.6m (2004 £0.1m) provision in the Company balance sheet relates primarily to replacement of the Chief Executive.

23 DEFERRED TAX

	Group 2005 £m	Group 2004 £m	**Company 2005 £m**	Company 2004 £m
Deferred tax asset				
At 31 March 2004	**5.2**	4.0	**0.3**	–
Transfer to profit and loss account	**(0.8)**	1.5	**0.1**	0.3
Disposal	**(0.6)**	–	**–**	–
Exchange movements	**–**	(0.3)	**–**	–
As at 31 March 2005	**3.8**	5.2	**0.4**	0.3

	Group Recognised 2005 £m	Group Recognised 2004 £m	**Group Unrecognised 2005 £m**	Group Unrecognised 2004 £m
The amounts for deferred tax assets, representing the full potential liability, are set out below:				
Excess of depreciation over corresponding capital allowances	**1.4**	1.6	**0.9**	0.4
Other timing differences	**2.3**	3.4	**0.1**	–
Carried forward losses	**0.1**	0.2	**6.6**	5.1
	3.8	5.2	**7.6**	5.5

	Company Recognised 2005 £m	Company Recognised 2004 £
The amounts for deferred tax assets, representing the full potential liability, are set out below:		
Excess of depreciation over corresponding capital allowances	**0.3**	0.2
Other timing differences	**0.1**	0.1
	0.4	0.3

There were no Company unrecognised deferred tax assets (2004 £nil). A deferred tax asset of £3.8m (2004 5.2m) has been recognised in the accounts. This asset relates to short term timing differences, deferred capital allowances which have not been fully claimed and losses in some of the Group's overseas operations. The Group has recognised the assets only to the extent that there is expected to be suitable taxable profits from which the future reversal of the underlying differences can be deducted and the losses utilised.

24 CALLED UP SHARE CAPITAL

	2005 Shares 000	**2005 £m**	2004 Shares 000	2004 £m
Authorised				
Ordinary shares of 5p each	**58,000**	**2.9**	58,000	2.9
Allotted, called up and fully paid				
Ordinary shares of 5p each	**48,308**	**2.4**	48,090	2.4

	Number of shares	Aggregate nominal value	Consideration per share
New issues of ordinary shares of 5p each during the year			
Exercise of Savings Related Share Options	167,330	£8,366	£1.270 – £1.870
Exercise of Executive Share Options	11,000	£550	£1.830 – £1.875
New shares sold for cash	40,000	£2,000	£2.475

	2005 Number of shares	Option price range	Period when exercisable	2004 Number of shares
Options subsisting at the year end on unissued ordinary shares				
Executive Share Option Schemes	**3,009,070**	£1.480 – £4.870	01/04/05 – 14/07/14	2,900,649
Savings Related Share Option Scheme	**525,466**	£1.270 – £1.870	01/04/05 – 31/07/09	607,684
Total options subsisting on unissued ordinary shares	**3,534,536**			3,508,333
Percentage of issued share capital	**7.3%**			7.3%
Options subsisting at the year end on existing ordinary shares held in trust				
Senior Executive Long Term Incentive Scheme	**254,442**	Nil	01/04/05 – 16/07/09	319,134
Executive Share Option Scheme	**92,250**	£1.945 – £1.960	01/04/05 – 23/12/09	119,750
Individual Options	**308,556**	Nil – £2.950	01/04/05 – 19/12/08	467,113
Savings Related Share Option Scheme	**131,673**	£1.640 – £1.750	01/02/08 – 31/07/09	95,182
Total options subsisting on existing ordinary shares held in trust	**786,921**			1,001,179

25 RESERVES

	Share premium account £m	Investment in own shares £m	Capital redemption reserve £m	Other reserves £m	Group Profit and loss account £m
At 31 March 2004 – as reported	19.0	–	0.1	15.9	55.5
Prior year adjustment	–	(2.7)	–	–	1.9
At 31 March 2004 – as restated	19.0	(2.7)	0.1	15.9	57.4
Premium on issued shares	0.4	–	–	–	–
Retained loss for the financial year	–	–	–	–	(14.2)
Goodwill written back to the profit and loss account	–	–	–	–	3.6
Other exchange adjustments	–	–	–	–	0.1
At 31 March 2005	**19.4**	**(2.7)**	**0.1**	**15.9**	**46.9**

Purchased goodwill of £35.9m (2004 £39.5m), previously eliminated against reserves, has been offset against the profit and loss account.

25 RESERVES continued

	Share premium account £m	Investment in own shares £m	Capital redemption reserve £m	Other reserves £m	Company Profit and loss account £m
At 31 March 2004 – as reported	19.0	–	0.1	7.6	100.7
Prior year adjustment	–	(2.7)	–	–	1.9
At 31 March 2004 – as restated	19.0	(2.7)	0.1	7.6	102.6
Premium on issued shares	0.4	–	–	–	–
Retained loss for the financial year	–	–	–	–	(8.9)
At 31 March 2005	**19.4**	**(2.7)**	**0.1**	**7.6**	**93.7**

Distributable reserves of the Company at 31 March 2005 were £93.7m (2004 £100.7m). The impact on the balance sheet of the adoption of FRS 17 is shown in Note 7.

The prior year adjustment reflects the adoption of UITF 38 'Accounting for ESOP Trusts' whereby the net carrying value of the shares held in the Employee Benefit Trust has been recognised as a reduction in shareholders' funds rather than as a fixed asset investment.

In total 990,997 shares (2004 1,051,497) are now held in the Employee Benefit Trust in relation to Executive Share Option and Senior Executive Long Term Incentive and Save As You Earn Schemes. Dividends on these shares are being waived.

26 RECONCILIATIONS OF MOVEMENTS IN EQUITY SHAREHOLDERS' FUNDS

	Group 2005 £m	Group 2004 As restated £m	**Company 2005 £m**	Company 2004 As restated £m
Profit for the financial year	**1.6**	10.0	**6.9**	7.6
Dividends paid and proposed	**(15.8)**	(3.9)	**(15.8)**	(3.9)
Retained (loss)/profit for the financial year	**(14.2)**	6.1	**(8.9)**	3.7
Exchange differences on foreign currency net investments	**0.1**	(2.8)	**–**	–
Goodwill written back to the profit and loss account	**3.6**	0.2	**–**	0.2
Change in investment in own shares	**–**	0.1	**–**	0.1
New share capital subscribed	**0.4**	0.2	**0.4**	0.2
Net (reduction)/increase in equity shareholders' funds	**(10.1)**	3.8	**(8.5)**	4.2
Opening equity shareholders' funds – as reported	**92.9**	89.2	**129.8**	125.7
Prior year adjustment	**(0.8)**	(0.9)	**(0.8)**	(0.9)
Opening equity shareholders' funds – as restated	**92.1**	88.3	**129.0**	124.8
Closing equity shareholders' funds	**82.0**	92.1	**120.5**	129.0

27 NET CASH FLOW FROM OPERATING ACTIVITIES

	2005 £m	2004 £m
Group operating profit	**0.5**	5.7
Depreciation charges	**4.4**	4.9
Amortisation of goodwill	**1.1**	0.7
Net profit on disposal of fixed assets	**(0.1)**	(0.1)
Change in stocks	**0.3**	6.9
Change in debtors	**1.9**	1.2
Change in creditors	**(1.8)**	(1.4)
Change in provisions	**0.8**	(0.1)
Net cash inflow from operating activities	**7.1**	17.8

Included in net cash flow from operating activities are outflows of £4.3m (2004 £0.9m) relating to exceptional items.

28 CASH FLOWS NETTED IN THE CASH FLOW STATEMENT

	2005 £m	2004 £m
Interest received	**0.7**	0.2
Interest paid	**(0.2)**	(0.3)
Net cash inflow/(outflow) from returns on investments and servicing of finance	**0.5**	(0.1)
Purchase of fixed assets	**(3.2)**	(2.4)
Sale of fixed assets	**0.8**	0.5
Investments acquired	**–**	(0.3)
Net cash outflow for capital expenditure and financial investment	**(2.4)**	(2.2)
Increase in term deposits	**(1.0)**	(14.0)
Increase/(decrease) in term loans	**0.6**	(0.8)
Net cash outflow from management of liquid resources	**(0.4)**	(14.8)
Issue of ordinary shares including share premium	**0.4**	0.2
Net cash inflow from financing	**0.4**	0.2

29 MOVEMENT IN NET FUNDS

	At 31 March 2005 £m	Exchange rate effect £m	Cash movement in year £m	At 31 March 2004 £m
Cash at bank and in hand	**14.7**	(0.2)	5.7	9.2
Bank overdrafts	**(1.1)**	–	(0.2)	(0.9)
Net cash	**13.6**	(0.2)	5.5	8.3
Cash on short-term deposit	**15.0**	–	1.0	14.0
Debt due within one year	**(2.1)**	0.1	(0.6)	(1.6)
Net funds	**26.5**	(0.1)	5.9	20.7

30 DERIVATIVES AND FINANCIAL INSTRUMENTS

Forward foreign currency contracts

The Group enters into forward foreign currency contracts to reduce the currency exposures that arise on sales and purchases denominated in foreign currencies.

Changes in the fair value of foreign currency contract hedges are not recognised in the financial statements until the hedged position matures. An analysis of these unrecognised gains and losses at 31 March 2005 was as follows:

	Gains £m	(Losses) £m	Net total £m
Unrecognised gains and losses at 31 March 2004	0.8	–	0.8
Gains and losses arising in previous year recognised in current year	(0.8)	–	(0.8)
Gains and losses arising in current year and not recognised in current year	0.4	–	0.4
Unrecognised gains and losses at 31 March 2005	**0.4**	**–**	**0.4**

All unrecognised gains and losses are expected to be recognised within one year.

30 DERIVATIVES AND FINANCIAL INSTRUMENTS continued

The gross contract values of the forward contracts which the Group had not yet recognised at 31 March 2005 were:

	Gross contract value million	Book value £m	Fair value £m
US Dollar	5.5	–	0.1
Euro	6.9	–	0.1
Japanese Yen	444	–	0.2

The net foreign currency monetary assets after taking account of contract hedges at 31 March 2005 were:

	Net monetary assets £m
US Dollar	–
Euro	–
Japanese Yen	–

These net monetary assets relate only to items that are not denominated in the reporting currency of the operating company in which they are recorded.

Financial assets and financial liabilities

Other than short-term debtors and short-term creditors the Group had the following financial assets and financial liabilities at the 31 March 2005:

	Currency	Interest rate	**Book and fair value £m**
Cash in hand and short-term deposits	Sterling	floating	**20.3**
Cash in hand	US Dollar	floating	**5.2**
Cash in hand	Euro	floating	**1.8**
Cash in hand	Japanese Yen	none	**2.4**
Total financial assets			**29.7**
Bank loans	US Dollar	floating	**2.5**
Bank overdraft	Euro	floating	**0.5**
Bank overdraft	Singapore Dollar	floating	**0.2**
Total financial liabilities			**3.2**

Maturity of financial assets and liabilities

All financial assets and liabilities above mature within one year or on demand. The non-current creditors of £1.1m relate to earnout payments on acquisitions made in the year and will be paid no later than October 2006.

Interest rates

Interest rates for financial assets are based on money market rates for the terms involved. Interest rates on the financial liabilities are determined by reference to LIBOR and EURIBOR rates.

The Euro cash and overdraft balances are netted for interest calculation purposes under a pan-European notional pooling agreement.

Borrowing facilities

The Group had committed borrowing facilities at 31 March 2005 of £15.0m (2004 £15.0m) of which the following were undrawn:

	2005 £m	2004 £m
Expiring in less than 1 year	**–**	5.0
Expiring in more than 2 years but less than 5 years	**15.0**	10.0

31 CONTINGENT LIABILITIES

	Group 2005 £m	Group 2004 £m	Company 2005 £m	Company 2004 £m
Guarantees in respect of subsidiary undertakings' indebtedness	**–**	–	**7.1**	2.1

Certain subsidiaries of the Group have, in the normal course of business, given guarantees in respect of performance bonds. Where the Company has issued guarantees to secure bank facilities for its subsidiary undertakings, the value of these guarantees are only shown to the extent that these facilities were being used by its subsidiary undertakings at the year end.

Other than disclosed in Notes 7 and 22 there are no unfunded pension or post retirement medical costs. No security has been given in respect of any contingent liability.

In an international group of companies a variety of legal claims arise from time to time. The Board, having taken legal advice, are of the opinion that the ongoing actions and investigations will not have a material impact on the Group's financial position.

32 OTHER COMMITMENTS

	Group 2005 £m	Group 2004 £m	Company 2005 £m	Company 2004 £m
Capital commitments				
Contracted for but not provided	**0.6**	1.0	**–**	–

Leasing commitments

Annual commitments under non cancellable operating leases expiring within:

		Group 2005 £m	Group 2004 £m	Company 2005 £m	Company 2004 £m
1 year	Land and buildings	**0.2**	0.5	**–**	–
	Other	**0.2**	0.2	**–**	–
	Total	**0.4**	0.7	**–**	–
2 to 5 years	Land and buildings	**1.2**	0.7	**–**	–
	Other	**0.4**	0.6	**0.1**	0.1
	Total	**1.6**	1.3	**0.1**	0.1
Thereafter	Land and buildings	**0.6**	0.6	**–**	–

33 POST BALANCE SHEET EVENT

On 5 April 2005 the Group acquired HKL Technology A/S, a manufacturer of Electron Back Scatter diffraction systems, based in Hobro, Denmark, for a cash consideration of £2.3m of which £2.1m was paid on acquisition.

34 EXCHANGE RATES

The principal exchange rates to sterling used were:

Average translation rates	2005	2004
US Dollar	**1.85**	1.69
Euro	**1.47**	1.45
Yen	**198**	191

Year end rates	2005	2004
US Dollar	**1.89**	1.84
Euro	**1.45**	1.50
Yen	**202**	191

Average contract rates	2005	2004
US Dollar	**1.80**	1.63
Euro	**1.43**	1.49
Yen	**187**	183

The formal notice convening the Company's 2005 Annual General Meeting and explanations of the resolutions the Directors will be proposing at the meeting are set out below.

NOTICE OF THE 2005 ANNUAL GENERAL MEETING

Notice is hereby given that the forty-first Annual General Meeting of Oxford Instruments plc will be held at 2:30pm on 20 September 2005 at the offices of Oxford Instruments plc, Old Station Way, Eynsham, Witney, Oxon OX29 4TL to transact the following business:

1 Directors' Remuneration Report
To approve the Directors' Remuneration Report set out on pages 28 to 33 of the Reports and Financial Statements for the year ended 31 March 2005.

2 Directors' Report and Accounts
To receive and adopt the Reports and Financial Statements for the year ended 31 March 2005 and the Report of the Auditors thereon.

3 Final dividend
To declare the final dividend for the year to 31 March 2005.

4 Re-election of Directors
(a) To re-elect Peter Morgan who retires by rotation but, being eligible, will be proposed for re-election.
(b) To re-elect Bernard Taylor who retires by rotation but, being eligible, will be proposed for re-election.
(c) To re-elect Mike Brady who is required to retire annually as he has been a Non-Executive Director for more than 9 years.
(d) To re-elect Jonathan Flint who, having been appointed a Director since the date of the last Annual General Meeting, will be proposed for re-election.
(e) To re-elect Mike Hughes who, having been appointed a Director since the date of the last Annual General Meeting, will be proposed for re-election.

5 Appointment and remuneration of Auditors
(a) To appoint KPMG Audit Plc as Auditors to the Company for the period until the next Annual General Meeting.
(b) To authorise the Directors to agree the remuneration of the Auditors.

6 Permission for the Directors to allot further shares
To consider, as an Ordinary Resolution, that the authority conferred by Article 10.1 of the Articles of Association be renewed until the earlier of the expiry of the next following Annual General Meeting of the Company and the date which is fifteen months from the date of the passing of this Resolution and that the Section 80 amount be £484,589.

7 Relaxation of the restrictions which normally apply when ordinary shares are issued for cash
To consider as a Special Resolution that the authority conferred by Article 10.2 of the Articles of Association be renewed until the earlier of the expiry of the next following Annual General Meeting of the Company and the date which is fifteen months from the date of the passing of this Resolution and that the Section 89 amount be £120,771.

8 Authority to buy back up to 10% of the Company's issued share capital
To consider as a Special Resolution that pursuant to Article 4 of the Articles of Association of the Company and subject to the provisions of the Companies Act 1985 ("the Act") the Company be generally and unconditionally authorised to purchase by market purchase (as defined by Section 163 of the Act) up to 4,830,822 ordinary shares of 5p each in its own capital subject to the following:
(i) the purchase price for any share so purchased shall not exceed a sum (exclusive of all expenses) equal to 105% of the average of the middle market quotations for ordinary shares for the five business days immediately preceding the day of purchase (as derived from the London Stock Exchange Daily Official List) and shall not be less than the nominal value of the share;
(ii) the authority shall expire on the earlier of the close of the following Annual General Meeting or the expiry of fifteen months from the date of the passing of the Resolution;
(iii) the Company may make a contract for purchase which would, or might, be executed wholly or partly after the expiry of the authority; and
(iv) any shares purchased pursuant to the authority may be selected by the Directors in any manner as they from time to time deem appropriate.

9 Donations to EU political organisations and EU political expenditure
To consider as an Ordinary Resolution that the Company be and is hereby authorised to:
(i) make donations to any one or more EU political organisations which is not a registered party; and
(ii) incur EU political expenditure in an aggregate amount not exceeding £100,000 per annum during the period commencing on the date of this Resolution and ending on the date of the Annual General Meeting in 2006. For the purposes of this Resolution, the expressions "Donations", "EU political organisations", "EU political expenditure" and "registered party" have the meanings set out in section 347A of the Companies Act 1985 (as amended by the Political Parties, Elections and Referendums Act 2000).

10 **Amendments to the Savings Related Share Option Scheme**
To consider as an Ordinary Resolution that the rules ("the Rules") of the Oxford Instruments plc approved Savings Related Share Option Scheme 1995 ("the Scheme") be amended in the following manner:
(i) to extend the maximum period during which options may be granted under the Scheme until the 10th anniversary of the passing of this Resolution;
(ii) to amend the provisions in Rule 3.1 relating to Aggregate Limitations so that "allocation" shall include options over shares held in treasury but so that where options are satisfied by the transfer of existing shares (other than shares held in treasury) such shares shall be ignored in calculating the limits under Rule 3.1;
(iii) to amend the provisions of Rule 13.1(a) so that any alteration to the Rules shall require the approval of HM Revenue and Customs only where it is a "key feature" within the meaning of paragraph 42(2)(2B) of Schedule 3 to the Income Tax (Earnings and Pension) Act 2003 ("ITEPA"); and
(iv) to make such changes as the Directors consider appropriate to conform the Rules to current statutory references in ITEPA;
provided that such amendments shall not take effect unless and until approved by the HM Revenue and Customs and is subject to such changes and/or further amendments as in the opinion of the Directors shall be necessary or conducive to obtaining such approval.

11 **Amendments to the 2001 Executive Share Option Scheme**
To consider as an Ordinary Resolution that, subject to Inland Revenue approval in relation to Part A of the Oxford Instruments 2001 Executive Share Option Scheme (the "Scheme"), the rules of the Scheme be amended as summarised in explanatory note below. The amended rules are produced to the meeting and signed by the Chairman for the purposes of identification.

12 **Amendment to the Articles of Association**
To consider as a Special Resolution that the Company's Articles of Association should be amended as follows:
(i) in Article 152, adding after "indemnified by the Company" the words, "directly or indirectly (whether by funding any expenditure incurred or to be incurred by him)";
(ii) in Article 152, deleting the words, "and in which judgment is given" through to and including, "is granted to him by the court." and replacing them with, "and whether in connection with any proven or alleged negligence, default, breach of duty or breach of trust by that officer or otherwise in relation to the Company or any associated company (as defined by section 309 of the Act)."; and
(iii) in Article 153:
(a) adding, after "any liability", the words, ", loss or expenditure"; and
(b) adding, at the end of Article 153, the words, "whether in connection with any proven or alleged negligence, default, breach of duty or trust by him or otherwise in relation to the Company or any associated company (as defined by section 309 of the Act).".

MEETING NOTES

1 A member entitled to attend and vote at the Meeting is entitled to appoint one or more proxies to attend and, on a poll, to vote instead of him. Such proxy or proxies need not be a member or members of the Company. A Form of Proxy is enclosed.

2 To be effective the Form of Proxy must be lodged with the Company's Registrar at Capita Registrars, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU no later than forty-eight hours before the time fixed for the Meeting.

3 Pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001, the Company specifies that only those Shareholders registered in the register of members of the Company as at the close of business on 18 September 2005 shall be entitled to attend or vote at the Meeting in respect of the number of Ordinary Shares registered in their name at that time. Changes to entries on the relevant register of securities after the close of business on 18 September 2005 shall be disregarded in determining the rights of any person to attend or vote at the Meeting.

4 Copies of the following documents will be available for inspection at the Registered Office of the Company and at the offices of the Company's solicitors, Laytons, Carmelite, 50 Victoria Embankment, London EC4Y 0LS during normal business hours on any weekday (Saturdays and public holidays excepted) from the date of this Notice until the conclusion of the Meeting:
(i) the service contracts of the Executive Directors;
(ii) the register of interests of Directors (and their families) in the shares of the Company;
(iii) a copy of the rules of the 2001 Share Option Scheme, marked to show the proposed amendments; and
(iv) the written terms of reference of the Board Committees.

The Directors believe that the proposed resolutions are in the best interests of the Company and its shareholders, and accordingly unanimously recommend shareholders to vote in favour of resolutions numbered 1 to 12 inclusive to be proposed at the Annual General Meeting, as they propose to do in respect of their beneficial shareholdings.

By Order of the Board
Martin Lamaison Company Secretary
22 July 2005

EXPLANATORY NOTES ON THE PROPOSED RESOLUTIONS

The explanatory notes below summarise the purpose of the Resolutions to be voted upon by Shareholders at this year's Annual General Meeting.

Resolutions 1 to 6 and 9 to 11 will be proposed as ordinary resolutions. More than 50% of the votes cast must support these resolutions in order for them to be passed. Resolutions 7 and 8 will be proposed as special resolutions and 75% or more of the votes cast must support them in order for these resolutions to be passed.

Resolution 1 – Shareholders will be asked to approve the adoption of the Directors' Remuneration Report for the year ended 31 March 2005. Under the "Directors' Remuneration Report Regulations 2002", Directors are required to ask shareholders to vote on the Directors' Remuneration Report (shown on pages 28 to 33). The Directors, who have unanimously endorsed the Directors' Remuneration Report, consider that asking the shareholders to vote on this report facilitates accountability and transparency.

Resolution 2 – Shareholders will be asked to approve the adoption of the Reports and Financial Statements for the year ended 31 March 2005.

Resolution 3 – Shareholders will be asked to approve payment of a final dividend of 6.0p per ordinary share for the year ended 31 March 2005. If approved at the Annual General Meeting, the dividend will be paid on 28 October 2005 to shareholders registered at the close of business on 30 September 2005.

Resolutions 4 (a), (b) and (c) – In reviewing the recommendations of the Nominations Committee concerning these elections, the Board has concluded that each of the Non-Executive Directors is independent in character and judgment and continues to make effective and valuable contribution to the Board and to demonstrate commitment to the role. The Board unanimously recommends their re-election.

The Company's Articles of Association state that every Director shall retire from office at the third annual general meeting after the Annual General Meeting at which they were last elected. All Directors take it in turn to retire in this way. This gives shareholders the chance to confirm their re-appointments. At the 2005 annual general meeting Peter Morgan and Bernard Taylor are retiring under this provision and, being eligible, are standing for re-election.

Peter Morgan is an Independent Non-Executive Director and joined the Board in 1999. He is Chairman of the Audit Committee and a member of the Remuneration and Nomination Board Committees. Bernard Taylor is also an Independent Non-Executive Director and joined the Board in 2002. He is a member of the Audit and Nomination Board Committees. The Chairman's formal performance evaluation has shown that their performance is still effective. The rest of the Board feel that they have demonstrated commitment to the role and that each should be proposed for re-election.

Mike Brady is Deputy Chairman and Senior Independent Director and as of June 2005 had served on the Board for ten years. He is currently a member of the Audit, Remuneration and Nomination Board Committees. Mike Brady first became a Non-Executive Director of the Company in 1995; accordingly the Board has considered whether it is appropriate in view of his length of service that he continue in office and if so whether he should be considered to be independent. Having taken into account his technical expertise as the only Non-Executive Director from a scientific profession; the value of that expertise to Board discussions; the strength of his professional and business interests unrelated to the Group or other members of the Board; his continual constructive probing from the technical aspect of proposals considered by the Board; the composition of the Board generally and the fact that he qualifies as independent in all other criteria referred to in the Combined Code, the Board has concluded that it is appropriate that he continues in office and that he should properly be considered to be independent. This year, Mike Brady retires in accordance with the provisions of the Combined Code and offers himself for re-election to allow shareholders the opportunity to express their views on the matter.

Resolution 4 (d) and (e) – Jonathan Flint and Mike Hughes have been appointed Directors since the last Annual General Meeting and, in accordance with the Articles of Association, are retiring and offering themselves for re-election. The Board believes the re-election of Jonathan Flint and Mike Hughes is in the best interests of the Company as their skills, experience and knowledge will enhance and maintain an effective Board. Both their appointments were recommended by the Nomination Committee following a thorough evaluation process.

The biographical details of all the Directors standing for re-election are set out on page 16.

Resolutions 5 (a) and (b) – The Company is required to appoint auditors at each general meeting at which accounts are laid before the shareholders. The auditors are appointed from the conclusion of the forthcoming Annual General Meeting until the conclusion of next year's Annual General Meeting. Following the recommendation of the Audit Committee, shareholders will be asked to appoint KPMG Audit Plc as the Company's auditors until next year's Annual General Meeting and to authorise the Directors to set their fees.

Resolution 6 – This Resolution lifts the restrictions which would apply to the Directors' power to allot or agree to allot new shares and will allow the Directors to allot or agree to allot further relevant securities up to an aggregate nominal amount of £484,589. This represents the unissued ordinary share capital on 31 March 2005. This authority replaces the previous power of the Directors to allot relevant securities and, if passed, will lapse at the earlier of the Annual General Meeting following its passing or, if later, on 19 December 2006. The Directors have no present intention of allotting new ordinary shares, other than pursuant to the exercise of options under employees' share schemes. The Company presently holds no Treasury Shares.

Resolution 7 – Unless they are given an appropriate authority, Directors may allot new equity shares (including Treasury Shares) for cash (excluding shares issued under employees' share schemes) only if they have first been offered to existing shareholders in proportion to their holdings. There may however be occasions when in order to act in the best interests of the shareholders and the Company, the Directors will need the flexibility to finance business opportunities as they arise by the issue of a small number of shares for cash in circumstances such as the acquisition of a new company or business by the Group. The maximum number of ordinary shares to be covered under the power, with the exception of a rights issue or other pre-emptive offers, is 2,415,411 which represents 5% of the issued ordinary share capital on 31 March 2005. This Special Resolution replaces the Directors' existing authority and, if passed, will lapse at the earlier of the Annual General Meeting following its passing or if later, on 19 December 2006.

Resolution 8 – This Special Resolution is a renewal of the authority granted to Directors at the 2004 Annual General Meeting. It allows the Company to buy back up to 4,830,822 of its issued ordinary shares on the stock market. This is equal to 10% of the Company's issued share capital on 31 March 2005. The Resolution sets out the lowest and highest prices the Company can pay for the shares.

The Directors are committed to creating shareholder value. Buying back the Company's shares is one of the options they keep under review. The Directors will only implement such purchases if they think it is in the shareholders' best interests. Before making such a decision they would consider the effect on earnings per share.

The Companies (Acquisition of Own Shares) (Treasury Shares) Regulations 2003 allow companies to hold shares acquired by way of market purchase in treasury, rather than having to cancel them. The Company may now therefore consider holding any of its own shares that it purchases pursuant to the authority conferred by this Resolution as treasury shares as an alternative to cancelling them. This would give the Company the ability to re-issue such shares quickly and cost effectively, and would provide the Company with additional flexibility in the management of its capital base. The Directors believe that it is desirable for the Company to have this flexibility.

Unless the Directors determine that they are to be held as treasury shares (see above) any shares in its own capital purchased by the Company shall be cancelled and the number of shares in issue will be reduced accordingly. Shares held in treasury will not automatically be cancelled and will not be taken into account in future calculations of earnings per share (unless they are subsequently resold or transferred out of treasury).

No dividends will be paid on shares whilst held in treasury and no voting rights will be exercisable in respect of treasury shares.

This power will automatically lapse at the end of the Company's next Annual General Meeting or on 19 December 2006 whichever is earlier.

Resolution 9 – The Company did not make any donations to political parties in the European Union ("EU") in the year under review and it is the Company's current policy not to do so. However, the Political Parties, Elections and Referendums Act 2000 ("PPERA") effective from February 2001, defines EU Political Organisations very widely and, as a result, in certain circumstances, donations intended for charitable or similar purposes may now be regarded as political in nature.

In order to comply with its obligations and to avoid any inadvertent infringement of PPERA, the Company considers it is prudent to seek shareholders' approval for a maximum aggregate level of donation. Resolution 9 seeks authority for the Company to make donations to EU Political Organisations or incur EU Political Expenditure not exceeding £100,000 per annum. The Company has no present intention of using this authority for any purpose other than a continuation of normal business and employment practices. In particular this authority will not be used to make any political donations as that expression would have been understood before PPERA became law.

This authority will last until the conclusion of the Company's Annual General Meeting in 2006.

Resolution 10 – This Ordinary Resolution renews the Savings Related Share Option Scheme 1995 following the 10th anniversary of that Scheme. The proposed amendments can be summarised as follows.

Eligibility
All UK resident employees (including Directors) of the Group who have completed continuous service of at least six months at any time when an offer is made will be entitled to participate.

Option Shares
Options under the Scheme are options to acquire ordinary shares in the Company which may, at the election of the Directors, be satisfied by the issue of new shares and/or by the transfer of existing shares, for example shares held in treasury or surplus shares held by a Company employee benefit trust. Where the option is satisfied by the transfer of existing shares any costs of the transfer, including stamp duty, will be discharged by the Company.

Option Price
The option price may not be less than 80 per cent of the price of shares on the dealing day immediately preceding the issue of invitations to participate. For these purposes the price will be the middle market quotation as derived from The Stock Exchange Daily Official List, or the nominal value of the shares if greater.

Subject always to the minimum price described above the Directors may specify an alternative Option Price depending upon whether the employee elects to make a savings contract of 3 or 5 years duration.

The option price and the number of shares subject to an option may be adjusted, subject to the prior approval of the Commissioners of H M Revenue and Customs and confirmation from the auditors of the Company that the adjustment is fair and reasonable, in the event of a rights or capitalisation issue or a reduction, consolidation or sub-division of the share capital. No adjustment may increase the aggregate option price, nor reduce the option price per share below its nominal value.

Participation
Invitations to participate in the Scheme may be made at the discretion of the Board during the forty-two day period commencing on the date on which the Company announces its annual or half yearly results. Options will not be transferable.

Invitations may be issued outside the forty-two day period above if the Board considers the circumstances to be sufficiently exceptional to justify their issue.

Eligible employees who wish to participate must enter into a contractual savings of 3 or 5 years approved for this purpose by the Inland Revenue. Under the savings scheme the employee will contract to make fixed contributions by deductions from their pay. At the end of the savings contract a participant may apply for a repayment of contributions together with a tax free bonus. The proceeds of the savings scheme may be used to acquire shares pursuant the exercise of their option.

Contributions to the savings scheme must not be less than £10 per month nor, when aggregated with contributions under other savings contracts, be more than the maximum amount from time to time permitted, currently £250 per month. If applications for options exceed the number of shares available, employees' contributions will be scaled down and the number of shares over which options are granted will be correspondingly reduced.

Limitations
No options shall be granted on any day which would, at the time they are granted, cause the number of Shares allocated in any period of 10 years ending on that day (but commencing after 31 July 2001) under the Scheme or under any other scheme to exceed such number as represents 10% of the ordinary share capital of the Company in issue at that time.

For these purposes 'any other scheme' means a scheme established by the Company, or to which the Company is a party, for the purposes of enabling Directors and/or employees of the Group to acquire shares in the Company, and "allocated" means placing unissued shares and/or shares held in treasury under option. Where the right to acquire shares was released or lapsed without being exercised or where they are in fact satisfied by the transfer of existing shares (other than shares held in treasury), the shares concerned will be ignored when calculating the limits.

Exercise of Options
Options may be exercised only within six months of the maturity of the related savings contract. Options may also be exercised earlier in exceptional circumstances which include death in service, as well as the optionholder ceasing to be employed by the Group due to injury, disablement, retirement at age 60 or contractual retirement date (being no earlier than 60 or later than 75), redundancy, the sale of a Group company or business transfer. Options not exercised within six months of the relevant event (twelve months in the case of death) then lapse. Options also become exercisable for six months upon the optionholder reaching age 60 but do not necessarily lapse on the expiry of the period.

If the optionholder ceases to make contributions under the savings scheme his option will lapse. Optionholders remain entitled to the proceeds due under the savings scheme including any bonus or interest accrued.

Options may be exercised in the six month period following the takeover, amalgamation, reconstruction or voluntary winding-up of the Company, and thereafter they will lapse.

In the event of a takeover of the Company, the rules provide that as an alternative to exercise the option may, with the consent of the acquiring company, be converted from an option over shares in the Company to an equivalent option over shares of the acquiring company.

Share rights
Shares issued under the Scheme will rank pari passu in all respects with the fully paid shares then in issue of the same class in the Company save that they shall not rank for any dividend or right declared, paid or arising by reference to a record dated earlier than the date of issue or transfer of the shares.

Amendments
The Board has power to amend the Scheme but no amendment may be made except with the prior sanction of the Company in general meeting in relation to the persons eligible to participate; the determination of option prices; the timing of invitations; limitations on the shares available for options; the ranking of shares acquired upon the exercise of options; restrictions on the exercise and transfer of options, rights of optionholders upon a takeover or liquidation of the Company; the adjustment of options; and the alteration provisions themselves.

In addition no alteration may alter materially any of the subsisting rights of optionholders, nor in respect of key features with which the Scheme must comply to maintain its approved status be made without the prior consent of H M Revenue and Customs.

Termination
The Scheme may be terminated at any time by resolution of the Board and no further options may be granted after the 10th anniversary of the approval of the scheme. Termination will not affect the outstanding rights of any participant.

The Directors believe that this offers employees an important opportunity to take a personal interest in Oxford Instruments plc as shareholders as well as employees.

Resolution 11 – It is proposed that various amendments should be made to the 2001 Executive Share Option Scheme ("the Scheme") in order to permit and reflect the grant of Share Appreciation Rights ("SAR") and the satisfaction of outstanding options with share appreciation rights under Part B (unapproved options) of the Scheme.

Under share appreciation rights ("SAR") an optionholder receives shares equal in value to the gain under his option but does not receive the number of shares originally granted. In effect, an option is settled by only issuing shares to the value of the gain, and these shares are issued at no consideration. This means that the number of shares to which an optionholder may become entitled depends on the Company's share price at the time of exercise. Consequently, over the life of a share appreciation right, the Company may want to adjust the number of unissued shares which count towards the dilution limit to reflect the Company's share price. A further explanation of SAR is set out below.

A SAR may be granted under this Schedule to Part B of the Scheme. The Rules shall apply to a SAR as if it were an option, except as set out in this Schedule. Where there is any conflict between the Rules and this Schedule, the terms of this Schedule shall prevail.

1 Before the grant of a SAR, the Remuneration Committee shall determine a "base price" for each share under the SAR. The base price shall be subject to the same restrictions as an option price set out in Rule 3.2 of Part B of the Scheme.

2 There shall be no amount payable on the exercise of a SAR.

3 Subject to paragraph 7 below, within 30 days after a SAR has been exercised by a Participant, the Board shall procure the transfer to him (or a nominee for him) or, if appropriate, allot to him (or a nominee for him) the number of shares which shall have an aggregate market value (as defined in paragraph 5 below) as near as possible equal to (but not exceeding) the notional gain (as defined in paragraph 4 below).

4 The notional gain is the amount by which the aggregate market value of the number of shares in respect of which the SAR is exercised exceeds the aggregate base price (as calculated in accordance with paragraph 1 above) of that number of shares.

5 For the purpose of this Schedule the market value of a Share is either:
(a) if shares are quoted in the London Stock Exchange Daily Official List, the middle market quotation of a share (as derived from that List) on the day before the day on which the SAR is exercised; or
(b) where shares are not so quoted, such value on the day on which the SAR is exercised as the Remuneration Committee, acting fairly and reasonably, shall decide.

6 Shares may only be allotted to a Participant (or a nominee for him) who exercises his SAR to the extent that the Board is authorised:
(a) to capitalise from the reserves of the Company a sum equal to at least the aggregate nominal value of the shares to be allocated to satisfy the exercise of the SAR; and
(b) to apply that sum in paying up such amount on such shares.

7 If the Board so decides, the whole or any part of the notional gain determined under paragraph 4 above shall, instead of being delivered to the Participant (or his nominee) in shares under paragraph 3 above be paid in cash.

8 Any payment of cash under paragraph 7 above will be subject to deduction of such amount (on account of tax and similar liabilities) as may be required by law or as the Board may reasonably consider to be necessary or desirable.

As a result of this, it is proposed that some minor consequential amendments to reflect the reduced number of shares involved should be made to the dilutions limits in Part A and Part B of the Scheme in order to allow the Company to reflect the use of SARs.

Resolution 12 – The permitted scope of indemnities which can be granted by a company to its directors and officers has been widened by an amendment to the Act which came into force on 6 April 2005. Section 19 of the Companies (Audit, Investigation and Community Enterprise) Act 2004 now allows a company to indemnify directors for liabilities to third parties even where that director is unsuccessful in defending the claim against him, and to pay certain directors' defence costs as they are incurred in civil or criminal cases.

The existing Articles of Association provide an indemnity by the Company, subject to the provisions of the Act, in favour of the Directors, Alternate Directors, the Company Secretary and the Company's other officers in the limited circumstances permitted by the previous legislation.

The amended Act now provides that indemnities cannot extend to liability incurred by the officer in question to the Company or any associated company of which he is a Director or officer, to fines in criminal proceedings or penalties imposed by regulatory authorities, to costs incurred in criminal proceedings where the Director or officer is convicted, or to costs incurred in civil proceedings brought by the Company or an associated company where judgment is given against the individual officer concerned.

The Board considers that it is in the best interests of the Company to take advantage of the amendments to the Act. The amendments proposed will widen the scope of the indemnity to the extent permitted by the new legislation.

Financial calendar

31 March 2005	Financial year end
3 June 2005	Announcement of preliminary results
20 September 2005	Annual General Meeting
28 September 2005	Ordinary shares quoted ex-dividend
30 September 2005	Record date for final dividend
28 October 2005	Payment of final dividend
Mid November 2005	Announcement of half year results
End March 2006	Payment of interim dividend
31 March 2006	Financial year end

Administrative enquiries

Administrative enquiries concerning shareholdings in Oxford Instruments plc, such as the loss of a share certificate, dividend payments, or a change of address should be directed, in the first instance, to the Registrar whose address is:

Capita Registrars
The Registry, 34 Beckenham Road,
Beckenham, Kent BR3 4TU
Tel 0870 1623100
Fax 020 8639 2342
email ssd@capitaregistrars.com

Correspondence should refer to Oxford Instruments plc and state clearly the registered name and address of the shareholder. Please notify the Registrar promptly of any change of address.

Dividend bank mandates

If you wish dividends to be paid directly into a bank or building society account and notification to be sent to your shareholder register address, please contact the Company's Registrar for a dividend mandate form.

Consolidation of share certificates

If your total registered ordinary shareholding is represented by several share certificates, you may wish to have these replaced by one consolidated certificate. There is no charge for this service. You should send your share certificates to the Company's Registrar, together with a letter of instruction.

Shareholder enquiries

Shareholders who have questions relating to the Group's business or who wish to have additional copies of the Report and Accounts or Interim Statement should apply to:

Company Secretary
Oxford Instruments plc,
Old Station Way, Eynsham,
Witney, Oxon OX29 4TL
Tel 01865 881437
Fax 01865 881944
E-mail info.oiplc@oxinst.co.uk
Website www.oxford-instruments.com

Company registration

Registered office: Old Station Way,
Eynsham, Witney, Oxon OX29 4TL
Registered number: 775598
Registered in England

Website – www.oxford-instruments.com

The Oxford Instruments website enables all stakeholders to access up to date information and contact details across the Company. An updated site will be introduced in the Autumn of 2005, with specific focus on our customers and improving external communications. New investor pages will also give shareholders the opportunity to obtain more information on the Company quickly and easily.

Share dealing scheme

In association with JPMorgan Cazenove Limited a low cost share dealing service has been introduced providing shareholders with a simple way of buying and selling Oxford Instruments plc ordinary shares. Further information is available from the Company Secretary or:

JPMorgan Cazenove Limited
20 Moorgate, London EC2R 6DA
Tel 020 7588 2828
Fax 020 7155 9000

Analysis of shareholders as at 31 March 2005

Size of shareholding	Number of holders	% of total	Total holding	% of total
Up to 5,000 shares	2,979	91.6	1,987,366	4.1
5,001 to 50,000 shares	194	6.0	2,854,039	5.9
50,001 to 200,000 shares	46	1.4	4,404,793	9.1
Over 200,000 shares	31	1.0	39,062,019	80.9
Total	3,250	100.0	48,308,217	100.0

	2001 £m	2002 £m	2003 £m	2004 £m	**2005 £m**
Profit and loss account					
Group and share of joint venture turnover	221.9	260.3	231.4	193.1	**182.1**
Less share of joint venture turnover	(36.8)	(46.6)	(44.1)	(10.8)	**–**
Group turnover	185.1	213.7	187.3	182.3	**182.1**
Group operating profit/(loss) before goodwill, exceptional items and discontinued businesses [1]	2.2	6.7	6.8	7.9	**7.4**
Exceptional items	(1.4)	–	(2.1)	(1.6)	**(5.7)**
Discontinued businesses before goodwill [1]	(2.1)	(1.1)	(0.5)	0.1	**(0.1)**
Goodwill amortisation	(0.1)	(0.3)	(0.3)	(0.7)	**(1.1)**
Group operating profit/(loss)	(1.4)	5.3	3.9	5.7	**0.5**
Group share of operating profit/(loss) of joint venture	4.4	5.2	1.6	(0.2)	**–**
Total operating profit/(loss)	3.0	10.5	5.5	5.5	**0.5**
Profit/(loss) on sale of business before goodwill	0.6	–	(1.5)	–	**6.0**
Profit on disposal of joint venture before goodwill	–	–	–	6.8	**–**
Profit on disposal of properties	–	3.0	–	–	**0.2**
Goodwill previously written off	–	–	–	(0.2)	**(3.6)**
Net interest receivable/(payable)	(0.8)	(1.5)	(1.6)	(0.2)	**0.5**
Profit/(loss) on ordinary activities before tax	2.8	12.0	2.4	11.9	**3.6**
Taxation	(2.9)	(2.7)	(1.2)	(1.9)	**(2.0)**
Profits/(losses) attributable to shareholders	(0.1)	9.3	1.2	10.0	**1.6**
Balance sheet					
Intangible assets – goodwill	4.4	4.4	2.7	2.6	**9.3**
Tangible fixed assets	43.8	38.9	35.6	32.6	**28.6**
Investments [2]	5.0	5.7	4.1	1.6	**1.6**
Stocks	43.7	48.5	36.5	28.5	**23.9**
Debtors	69.3	67.4	61.1	58.9	**47.5**
Other creditors	(61.9)	(59.7)	(48.8)	(47.5)	**(44.9)**
Net current assets, excluding net cash/(debt)	51.1	56.2	48.8	39.9	**26.5**
Cash at bank and on short-term deposit	1.6	4.8	6.4	23.2	**29.7**
Bank loans and overdrafts	(9.9)	(8.8)	(3.1)	(2.5)	**(3.2)**
Net cash/(debt)	(8.3)	(4.0)	3.3	20.7	**26.5**
Creditors: Amounts falling due after one year	–	–	–	–	**(1.1)**
Provisions for liabilities and charges	(6.2)	(6.0)	(5.3)	(5.3)	**(9.4)**
Net assets employed	89.8	95.2	89.2	92.1	**82.0**
Equity shareholders' funds [2]	89.8	95.2	89.2	92.1	**82.0**
Cash flow					
Net cash inflow/(outflow) from operating activities	(1.9)	6.6	14.9	17.8	**7.1**
Interest and dividends, paid and received	(0.7)	(2.2)	(2.6)	(4.0)	**(15.3)**
Taxation	(0.2)	(0.2)	(2.0)	(2.4)	**(2.1)**
Investing activities	(8.2)	0.1	(3.2)	6.1	**15.8**
Net cash (outflow)/inflow before management of liquid resources and financing	(11.0)	4.3	7.1	17.5	**5.5**

	pence	pence	pence	pence	**pence**
Per ordinary share					
Earnings/(losses)	(0.1)	19.9	2.6	21.3	**3.3**
Earnings from continuing operations before exceptional items and goodwill amortisation [1]	6.3	14.6	9.9	25.7	**10.9**
Dividends	8.4	8.4	8.4	8.4	**33.4**
Net assets attributable to shareholders [2]	187.7	198.7	186.0	191.5	**169.7**
Employees					
Average number of employees	1,551	1,773	1,674	1,537	**1,581**

1 After adjusting for disposal of Medical business 2005 and 2004 only
2 After deducting investment in own shares 2005 and 2004 only

Oxford Instruments plc
Head Office

Old Station Way, Eynsham,
Witney, Oxon OX29 4TL, UK
Tel +44 (0) 1865 881437
Fax +44 (0) 1865 881944
email info.oiplc@oxinst.co.uk

Analytical
Industrial Analysis and X-ray Microanalysis

Halifax Road, High Wycombe,
Bucks HP12 3SE, UK
Tel +44 (0) 1494 442255
Fax +44 (0) 1494 524129
email analytical@oxinst.co.uk

PO Box 85 (Nihtisillankuja 5),
FI-02631 Espoo, Finland
Tel +358 9 329 411
Fax +358 9 32941 300
email info@oxinst.fi

Majsmarken 1, 9500 Hobro, Denmark
Tel +45 96 57 26 00
Fax +45 96 57 26 09
email schmidt@hkltechnology.com

945 Busse Road, Elk Grove Village,
Illinois 60007, USA
Tel +1 847 439 4404
Fax +1 847 439 4425
email info@msys.oxinst.com

Plasma etching, deposition equipment and nanostructure creation

North End, Yatton, Bristol BS49 4AP, UK
Tel +44 (0) 1934 837000
Fax +44 (0) 1934 837001
email plasma.technology@oxinst.co.uk

Low power X-ray sources

275 Technology Circle, Scotts Valley,
California 95066, USA
Tel +1 831 438 5742
Fax +1 831 438 5629
email sales@oxfordxtg.com

Innovation

Old Station Way, Eynsham,
Witney, Oxon OX29 4TL, UK
Tel +44 (0) 1865 881437
Fax +44 (0) 1865 881944
email innovation@oxinst.co.uk

Dynamic nuclear polarising systems

Tubney Woods, Abingdon,
Oxon OX13 5QX, UK
Tel +44 (0) 1865 393200
Fax +44 (0) 1865 393333
email molecularbiotools@oxinst.co.uk

Superconductivity
Magnet Technology and Physical Science

Tubney Woods, Abingdon,
Oxon OX13 5QX, UK
Tel +44 (0) 1865 393200
Fax +44 (0) 1865 393333
email superconductivity@oxinst.co.uk

Old Station Way, Eynsham,
Witney, Oxon OX29 4TL, UK
Tel +44 (0) 1865 884500
Fax +44 (0) 1865 884501
email superconductivity@oxinst.co.uk

Superconducting wire and Field services

600 Milik Street, P O Box 429, Carteret,
New Jersey 07008-0429, USA
Tel +1 732 541 1300
Fax +1 732 541 7769
email sales@ost.oxinst.com

Cryogenic pumps and compressors

4114 Todd Lane, Austin,
Texas 78744, USA
Tel +1 512 441 6893
Fax + 1 512 443 6665
email ASCSales@ost.oxinst.com

Regional Sales and Service Offices
China

Room 714, Tower 3, Henderson Centre,
No 18 Jianguomennei Avenue,
Beijing 100005, China
Tel 86 (0)10 6518 8160/1/2
Fax 86 (0)10 6518 8155
email bj@oichina.cn

Room 14-F, No 1 Plaza,
No 800 Nanjing East Road,
Shanghai 200001, China
Tel +86 (0)21 6360 8530/1/2/3
Fax +86 (0)21 6360 8535
email sh@oichina.cn

Right House, No 129, Pingbei Road,
Xinzhuang Industrial Area, Minhang
District, Shanghai, 201109, China
Tel +86 (0)21 64907 705/6/7
Fax +86 (0)21 6490 4042
email sh@oichina.cn

Room 2112, Bai Hui Plaza,
193 Zhong Shan Wu Road,
Guangzhou 510030, China
Tel +86 (0)20 8364 9990/1
Fax +86 (0)20 8364 9996
email gz@oichina.cn

Czech Republic

Velvarska 13, CZ-160 00 Praha,
Czech Republic
Tel +420 233 343 264
Fax +420 224 311 724
email analytical@oxford.de

France

Batiment Ariane, Domaine Technologique
de Saclay, 4 rue Rene Razel,
91892 Saclay, France
Tel +33 1 69 85 25 25
Fax +33 1 69 41 46 80
email info@oxford-instruments.fr

Germany

Otto-von-Guericke-Ring 10,
65205 Wiesbaden, Germany
Tel +49 6122 937 0
Fax +49 6122 937 100
email info@oxford.de

Japan

Haseman Bldg., 2-11-6 Tomioka,
Koto-ku, Tokyo 135-0047, Japan
Tel +81 (0)3 5245 3251
Fax +81 (0)3 5245 4472
email info@oxinst.co.jp

Shin-Osaka Nishiura Bldg,
2-7-38 Nishi-Miyahara, Yodogawa-ku,
Osaka 532-0004, Japan
Tel +81 (0)6 6350 0555
Fax +81 (0)6 6350 0880
email info@oxinst.co.jp

Latin America

13575 58th Street N – Suite 154,
Clearwater, Florida 33760, USA
Tel +1 727 538 7702
Fax +1 727 538 4205
email oxford@gate.net

Russia

Denisovskiy per 26, 105005 Moscow,
Russian Federation
Tel +7 (095) 933 51 23
Fax +7 (095) 933 51 24
email analytical@oxford.de

Singapore

371 Beach Rd, #17-07 Keypoint,
Singapore 199597
Tel +65 6337 6848
Fax +65 6337 6286
email oi.admin@oxford-instruments.com.sg

Taiwan

1F, No 23, Jing-Shang 19th Street,
Hsinchu, Taiwan
Tel +886 3 5788696
Fax +886 3 5789993
email oi.admin@oxford-instruments.com.tw

USA

130A Baker Avenue Ext,
Concord, MA 01742, USA
Tel +1 978 369 9933
Fax +1 978 369 6616
email info@ma.oxinst.com

7020 Koll Center Parkway, Suite 140,
Pleasanton, CA 94566, USA
Tel +1 510 656 8820
Fax +1 925 461 5340
email info@ma.oxinst.com

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Oxford Instruments plc
Old Station Way
Eynsham, Witney
Oxon OX29 4TL UK

Tel +44 (0) 1865 881437
Fax +44 (0) 1865 881944
email info.oiplc@oxinst.co.uk
www.oxford-instruments.com