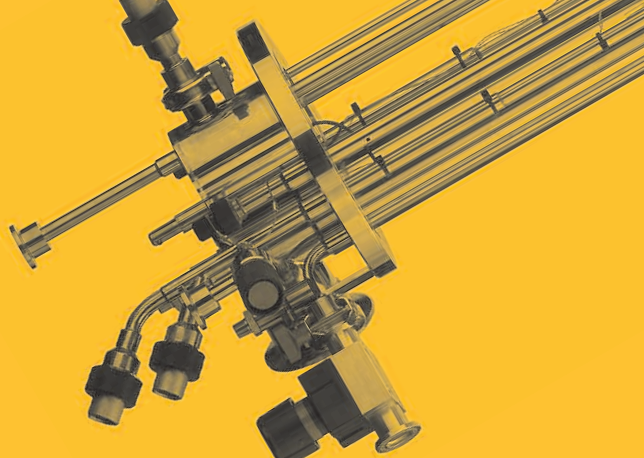

The **Business** of Science

Oxford Instruments plc Annual Report and Accounts 2006

OXFORD INSTRUMENTS

Group Results
Year ended 31 March

	2006 £m	2005 £m
Orders*	**159.9**	136.9
Revenue*	**153.8**	135.6
Trading profit, before non-recurring items and intangible amortisation*	**6.9**	9.1
(Loss)/profit before tax	**(0.9)**	0.1
Cash, less overdrafts and bank borrowings	**9.8**	26.5

	2006 pence per share	2005 pence per share
Adjusted earnings**	**9.1**	13.9
Total basic earnings	**(7.2)**	12.2
Dividends	**8.4**	33.4

Permanent employees at year end	**1,290**	1,295

* Underlying business performance

** Underlying business before other operating income, amortisation of intangibles and restructuring and other non-recurring costs

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Oxford Instruments specialises in the design and manufacture of high-technology tools and systems for industry and research. Founded over 40 years ago, the Company today employs around 1,300 people worldwide, and has been listed on the London Stock Exchange since 1983.

Innovation has been at the heart of Oxford Instruments since it was founded by Sir Martin Wood and is the driving force behind our growth and success. We have built a sound operational platform from which to launch our key technological capabilities, and our focus is on the commercialisation and support of the innovatory products that we offer our customers. It is our intention to build on our existing position as a leader in many of our markets, and to exploit the emerging potential of nanotechnology in the physical and bioscience sectors.

We will continue to generate value for our shareholders and all the other stakeholders in our business through the excellence of our worldwide network of sales and support professionals. Our focus on knowing more, thinking deeper and looking further ensures that a constant stream of leading edge products and systems will continue to drive our business forward.

OXFORD INSTRUMENTS

We are implementing the strategy that Jonathan Flint and I outlined last year at the time of his appointment as Chief Executive. Jonathan reports in more detail on the evolution of this strategy. Although much remains to be done, we have made important progress in repositioning the Group towards future growth markets by concentrating on tools and systems that enable customers to use our products to transform the nanoscience they undertake into the nanotechnology we all use.

Group trading profit of the underlying business, before non-recurring items and intangible amortisation, was £6.9 million. This was after charging £2.7 million arising from the planned product development investment initiative announced in June 2005. Before this expenditure, trading profit was £9.6 million, up £0.5 million on the previous year. The Group's Income Statement shows the results for the year split between the part of the magnet business where we have ceased volume manufacture (the restructured magnet business) and the remaining business (the underlying business). This shows the effect of the actions we have taken and announced. Group revenue of the underlying business for the year to 31 March 2006 was £153.8 million, £18.2 million (13.4%) higher than the previous year. Our recent acquisitions; Metorex International, Resonance Instruments and HKL Technologies, have all contributed to this year's performance.

Revenue of the restructured magnet business in the year was £13.4 million (2005 £19.2 million) and its trading loss increased to £2.5 million (2005 £1.7 million). The restructuring of this business, which will avoid a continuation of these losses, involved non-recurring costs of £6.6 million, mainly redundancies, moving costs and inventory write-offs. The provisions against inventory, including cancelled new product developments and end of line supplier commitments, are higher than anticipated at the time of the February announcement. Additionally, costs have been provided for on-site work required to meet customer specification requirements in the bespoke magnet business. Other income of £2.0 million, from disposals of minority interests and a surplus property, has partially offset these non-recurring costs.

After net financial expenditure of £0.4 million the Group made a loss before income tax of £0.9 million (2005 profit £0.1 million) from the combined results of the underlying business and the restructured magnet business.

Within Analytical, the trading profit before non-recurring items and intangible amortisation, decreased to £6.0 million from £6.4 million. Although our NanoAnalysis (formerly Microanalysis) and Industrial Analysis businesses continued to move ahead, showing the sixth successive year of profit growth, the trading performance of our Plasma Technology business was impacted by market pricing pressures, although these appear to have now eased. The X-ray Technology business again produced growth in revenue and trading profit, driven by the continuing buoyancy of the market for environmental monitoring tools.

In Superconductivity, the underlying business made a trading profit, before non-recurring items and intangible amortisation, of £0.9 million. After adding back the planned increase in product development expenditure of £2.5 million, the adjusted trading profit of £3.4 million was £0.7 million higher than last year. In February 2006, we decided to cease the volume manufacture of NMR and ICR magnets as a product range and to integrate the NMR magnet skills and technology with the Physical Science bespoke superconducting magnets and cryogenics business based at Tubney Woods, renaming the combined business, Oxford Instruments NanoScience. This restructuring is expected to improve the Superconductivity trading profit next year by at least £3.0 million and will allow greater clarity of the results of the rest of the Group. The NanoScience business, now under new management, will continue to offer the scientific community a range of novel bespoke magnets and cryogenics, but at the same time will seek to secure a proper reward for the technical risks involved. Our Superconducting Wire business in the USA continues to perform well and achieved 7% growth in wire sales.

Good results were achieved from the extra £3.3 million cash spent during the year on incremental product development under the sponsorship of our Oxford Instruments Innovation group. Two potentially significant new products were launched and early customer response has been very encouraging.

Nigel Keen and Jonathan Flint

We are now set on a path which will provide significant opportunities to grow the business and thereby increase value for our shareholders.

Basic earnings per share for the continuing business were a loss of 7.2 pence (2005 loss 3.0 pence). Basic adjusted earnings per share (defined as earnings per share for the underlying business, before other operating income, non-recurring items and intangible amortisation) were 9.1 pence (2005 13.9 pence). The Board recommends a final dividend of 6.0 pence, making the total dividend of 8.4 pence for the year, unchanged from last year excluding the special dividend of 25 pence paid in March 2005. Net cash at 31 March 2006 was £9.8 million (2005 £26.5 million).

We have a talented and enthusiastic workforce and I would like to thank all of them for their positive response to the new strategy and the resulting changes, and for delivering a creditable improvement in performance in the year.

During the year Charles Holroyd and Steve Parker joined the Board as Executive Directors. They both have functional worldwide responsibilities in addition to their business responsibilities for certain parts of the Group. We announced in May that Martin Lamaison will retire as Group Financial Director with effect from 7 August 2006 and that Kevin Boyd, currently Group Finance Director of Radstone Technology plc, will succeed him. I would like to thank Martin for his outstanding contribution to Oxford Instruments over the years. We are delighted with the appointment of Kevin and believe that his wide ranging business experience will be an asset to the Group as it continues to evolve and grow.

Trading in the first two months of the year is on track. We are now set on a path which will provide significant opportunities to grow the business and thereby increase value for our shareholders.

Nigel Keen Chairman
13 June 2006

I have been Chief Executive of Oxford Instruments for a year now and we have made good progress in reinventing the Group. Last year I outlined our new strategy based around our core skills of a deep understanding of matter at the atomic and molecular level. This strategy simultaneously provides a unified theme for all parts of Oxford Instruments and defines the markets in which the Group seeks to grow. Growth is a key element of our strategy, as through growth we can achieve the scale necessary to stay at the forefront of our chosen technological areas.

The key elements of the strategy this year have been:

- To move the business from a technology led, to a customer focused business;
- To move towards a systems and solutions orientated company;
- To aggressively move into new markets and launch new products;
- To move the business towards a single integrated entity; and
- To control costs through technology, process and organisation.

Each of these key elements of the strategy has progressed during the first year, though in some areas there remains much more to be done.

Focus on the customer – Our new 'voice of the customer' initiative has been rolled out across the Group. This ensures that customer feedback informs our new product development. Steve Parker was appointed to the Board of Oxford Instruments plc in November and he has taken on specific responsibility for leading the customer focus drive across the business. Encouragingly we have seen a growth in service revenues over the last year of 8%. This provides a stable long-term high quality revenue stream for the business. As our new products become established in the installed base, there are opportunities to grow this type of business further.

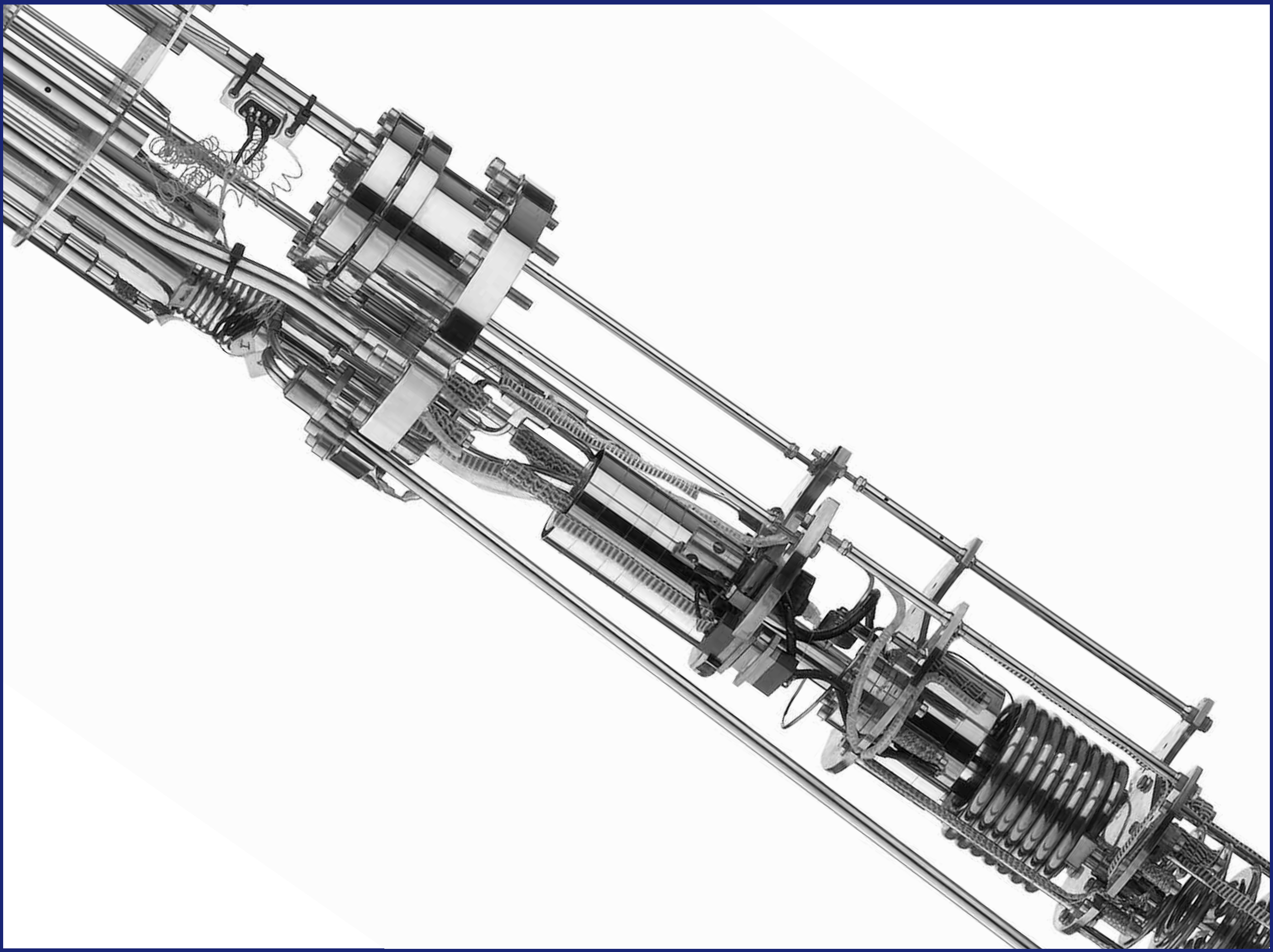
Total solutions – We are recruiting applications engineers into the business and we are increasingly able to offer complete solutions to our customers. We have set up a new applications laboratory in Oxfordshire for our growing Molecular Biotools business. This laboratory, together with our existing network of seven worldwide application laboratories, enable end users to interact directly with our products and specialists, seeing for themselves the capability of Oxford Instruments tools.

New products and markets – The Oxford Instruments Innovation Group is doing well in identifying and developing radical new products, which will fuel the growth of the business. In particular, the launch of our 'HyperSense' DNP system has generated huge customer interest. HyperSense has the potential to revolutionise many NMR applications. The research community is particularly excited. Prof Geoffrey Hawkes, Professor in Physical Organic Chemistry, Queen Mary, University of London said *"The sensitivity enhancements achievable in nuclear magnetic resonance (NMR) spectroscopy through the use of HyperSense are now well established, and at Queen Mary we are engaged in exploiting this sensitivity gain in applications which have great potential to the pharmaceutical industry for drug related research, and applications for biocompatible implant material"*. The first three units of this product have been delivered to customers.

Two further new products were developed during the year. The first of these, 'FlexAL' was launched in May 2006. 'FlexAL' is the first of a range of tools which use Atomic Layer Deposition (ALD) to fabricate one atom thick layers for customers in the electronics, semiconductor and optics industries. The second of these new tools will be launched later this year.

Single Entity – A unified organisational structure has now been implemented throughout the Group. I have created a central senior management team, all of whom have functional groupwide responsibilities. The business streams have been reorganised to provide a greater business focus on markets and customer groups. This has encouraged a 'one company' culture and at

What is The **Business** of Science?



Oxford Instruments' strong reputation for product excellence, built up over 40 years, adds value to our business. The Oxford Instruments' brand is an integral part of the sales process. When customers buy an Oxford Instruments' product, they are also buying into the core values and reputation of the Group.

We use **The Business of Science** to capture what the Oxford Instruments' brand stands for and to support our objectives of growth, customer focus and a 'one-company' culture.

The Business of Science

- reinforces our focus on the business of making science a commercial success
- says that science is central to our business and that we are involved in a broad range of science based activities
- underlines our commitment to developing our science into commercially successful tools and systems
- firmly positions the Group as a single entity, 'The Business'

the same time created new management opportunities for our best people. Common technological themes can rapidly be shared between the businesses and duplication of costs and process has been reduced.

Cost base – We continued to work on the reduction of our cost base. In November Charles Holroyd was appointed to the Board with specific responsibility for improving operational efficiency. Our two Oxford based sites have been consolidated into a single facility at Tubney Woods, which will yield significant ongoing savings. At the same time we have ceased production of our loss making volume magnet product lines. In addition we have moved the production of several of our product ranges to our low cost manufacturing facility in Shanghai.

On the back of these initiatives orders and revenue of the underlying business in the year rose by 16.8% and 13.4% respectively and trading profit, after adding back the increased new product development spend announced last year, is up by 5%. The action taken to close down the loss making undifferentiated magnet product lines together with site consolidation and further use of our low cost production facilities means that the way is now clear for sustained margin improvement.

Over the next few years we intend to continue to drive our business through the implementation of our strategy to develop new generation tools for the nanotechnology and bioscience industries. This will result in increased revenue, arising from both organic and acquisitive growth. Over the next five years I have targeted a doubling in turnover, and this revenue growth, coupled with cost reduction, should enable us to increase the return on sales by 10% of sales revenue over the same period.

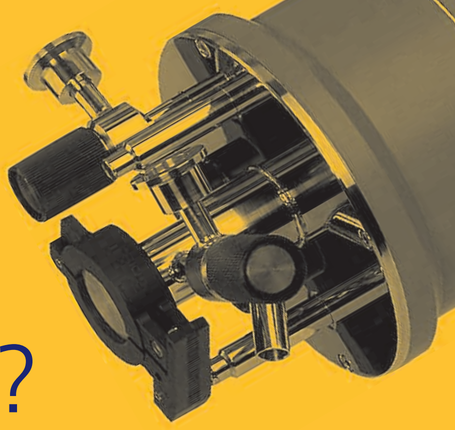
The Group has in place a risk management and mitigation approach which aims to ensure our medium term objectives set out above are achievable. The key risks which we address include competitive risks (pricing, new product introduction, acquisition prospects); technical risks (new product development, new technology); and commercial risks (fixed price technically demanding contracts, foreign exchange and commodity price movements, key customers and suppliers).

Our increased R&D spend will enable us to generate radical new products which will enable existing and new customers to turn nanoscience into nanotechnology. Our new NanoScience business will operate at the very cutting edge of technology. At any time we will have a few one-off magnet contracts where the technical achievements to meet customer specification are challenging, but we have put enhanced controls in place to manage these contracts. The NanoScience business also exposes potential future customers to our products during their years in higher education. At the moment our Analytical businesses have a number of high quality tools operating in distinct markets. We have identified significant latent demand if we could offer a more comprehensive tool capability which unifies these currently separate markets. Our strategy is to develop, and in some cases acquire, tools to fill in any capability gaps. This will enable us to offer a complete spectrum of analytical tools to our nanoscience and bioscience customers.

Our growth strategy will enable us to remain at the forefront of the business of science and enable our shareholders to benefit from Oxford Instruments' world-renowned technical capability.

This is an exciting time for all of us at Oxford Instruments. Our new strategy provides the engine which can deliver these growth targets and I am looking forward to making it happen.

Jonathan Flint Chief Executive
13 June 2006



What is **nanotechnology**?

Nanotechnology is the science of making things with sizes up to 100 nanometres. A nanometre is one billionth of a metre. In comparison, a human hair is about 80,000 nanometres wide. Work at the nanoscale means operating at atomic and molecular levels, looking at the different properties exhibited by nanoparticles.

Existing and potential applications will touch every part of our lives, particularly in information and communication technology and medicine. Our phones, computers and music players are getting smaller and lighter. New drugs are being developed more quickly and effectively, and improved early diagnosis of diseases and prevention of infection is becoming possible. Other applications include, self-cleaning nano-coated glass surfaces, stain resistant textiles, protection from UV rays – sun creams containing nanoparticles, food preservation, lighter and stronger nanocomposite materials – aviation, motor cars, golf clubs, fishing rods and fuel efficient transportation.

In effect, nanotechnology is our industrial revolution. By providing the tools and systems to enable research and development, Oxford Instruments is part of that revolution.

Analytical

Orders and revenue for the year were £85.5 million (2005 £67.9 million) and £80.7 million (2005 £68.8 million) respectively. Trading profit, before non-recurring items and intangible amortisation, was £6.0 million (2005 £6.4 million).

During the year steps were taken to introduce a more market-focused structure within our Industrial Analysis (formerly Industrial Products) and NanoAnalysis (formerly Microanalysis) businesses in order to be more responsive to customer needs and to reach into new markets. Separate sales, service and product development teams have been established within each business but both continue to share all other functions. New sales and distribution offices have been set up in Russia and India.

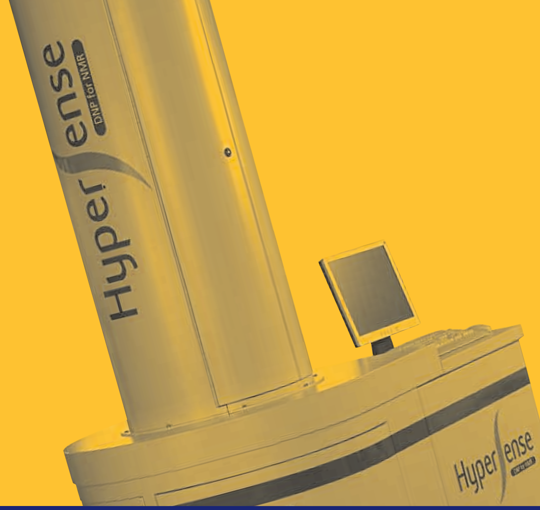
Our Industrial Analysis business has benefited immediately from these actions and revenue grew strongly in the second half. Metorex, acquired in September 2004, continued its excellent performance and has benefited from access to the existing Analytical global sales and distribution network. We introduced new products for environmental monitoring during the year for compliance testing under the Restriction of Hazardous Substances (RoHS) legislation and for soil analysis. At the end of March our isotope based 'Horizon' product was relaunched in France for use in measuring lead in paint. The introduction of environmentally friendly low sulphur fuels with differing sulphur concentrations means that a wide range of customers now require simple, on the spot sulphur analysis to certify that the fuel being used at a particular location conforms to an agreed specification. Industrial Analysis has now introduced its latest generation Lab-X instrument to offer sulphur analysis 'outside the laboratory' to any location in the fuel supply chain.

We have now transferred the full range of our hand held coating measurement gauges from Chicago to our low cost facility in Shanghai, as well as the larger benchtop CMI900 instrument used in the same marketplace, when higher precision is required. A project management team has been tasked with the rapid transfer to China of several other products currently made in the UK and USA.

The market for our NanoAnalysis business, providing analytical instruments for use with electron microscopes, remained steady. With the acquisition of HKL Technology in April 2005, the product portfolio has been significantly enhanced with the addition of the 'best in class' EBSD (electron backscatter diffraction) system. Following the successful integration of the HKL EBSD system with our existing market leading EDS (energy dispersive spectroscopy) platform and our WDS (wave length dispersive spectroscopy) systems, we now offer the best combination of elemental analysis systems in the market for use with electron microscopes. The second half of the year showed good growth as the new management structure allowed the NanoAnalysis team to focus better on its customers' needs. NanoAnalysis margins and profit remained strong throughout the year. Our greater focus on NanoAnalysis applications, as reflected in our decision to change the name of this business from Microanalysis, has also allowed the business to take advantage of the emerging nanotechnology markets and in particular to address the nanocharacterisation sector.

Although down on the previous year, our Plasma Technology business was profitable in the year. There was no significant upturn in the compound semiconductor market. However the market for high brightness light emitting diodes (LEDs) continues to grow with widespread utilisation already being seen in the automotive industry. These products are very energy efficient and this is expected to lead to increasing use in the domestic and other lighting markets. Reflecting this, we received orders from eight new customers in this sector during the year.

A vigorous programme of product introduction based on extensive customer research is now being reflected in new Plasma Technology product launches. In particular we have successfully installed beta sites for our new 'Plasma Enhanced Atomic Layer Deposition' (PEALD) product. Initial customer reaction has been positive with sales enquiries already active. The PEALD product offers the ability to deposit nano-scale thin films of material in the creation of nanostructures for new generation semiconductor, micro mechanical and optical devices and in new surface treatments. New nanofabrication tools will be launched



Looking **further**...

The demands on the bioscience and pharmaceutical industries to develop new drugs quicker and to find new ways of detecting disease earlier are increasing. Researchers are looking for innovative techniques to give them the tools to respond to this demand. Currently, Nuclear Magnetic Resonance (NMR) is used for routine research.

Now, Oxford Instruments' 'HyperSense' instrument enhances NMR with a unique technique called Dynamic Nuclear Polarisation (DNP) and this means scientists have the opportunity to transform the development process for new pharmaceuticals by receiving more information than ever before. It enables existing research to be carried out in a much shorter time period, and allows the use of much smaller test samples.

Other applications for 'HyperSense' will also provide information on how molecules interact with one another, potentially valuable in understanding the performance and effectiveness of new drugs.

in a few months and will be used for the controlled, repeatable growth of nanotubes and nanowires from carbon, silicon and other materials. These are expected to form the basis of a whole new generation of electronic devices for use in solar cells, display technology and nanowire transistors as well as a range of materials science applications.

Our X-ray Technology business produced another year of revenue and profit growth. Following several years of growth for its low power X-ray sources, driven in large part by new environmental legislation, the business is increasing its manufacturing capacity and moving to larger premises in the Scotts Valley area of California. The business now has a dominant market share in the RoHS market segment and is seeing new growth from the ultra-low sulphur market. In recognition of our leading position in low form factor X-ray tubes, we have been awarded a US$1.1 million development contract from NASA to develop an X-ray tube for use in space.

Superconductivity

Orders and revenue for the underlying business for the year were £74.4 million (2005 £69.0 million) and £73.1 million (2005 £66.8 million) respectively. Trading profit of the underlying business, before non-recurring items and intangible amortisation, was £0.9 million (2005 £2.7 million).

The market for bespoke superconducting magnets and cryogenic equipment picked up as the year progressed and orders were strong in the second half. However towards the end of the year it became clear that radical restructuring of our NMR magnet activity was needed, reflecting the future intention of one of our major customers to source increasingly from its own recently acquired magnet manufacturing factory. In February 2006 we announced we would discontinue volume production of undifferentiated magnets for OEM customers, close our manufacturing facility in Eynsham, Oxfordshire and consolidate all our magnet and cryogenic activity at our nearby Tubney Woods facility. At the same time a new managing director was appointed to the merged business, now known as Oxford Instruments NanoScience. These moves will greatly strengthen the ongoing business.

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 the world's first commercial Dynamic Nuclear Polarisation technique (DNP). The use of DNP in conjunction with conventional liquid state NMR provides an information rich technique whose performance cannot easily be matched by conventional NMR instrumentation alone. The information thus generated will help researchers understand the structure and function of molecules that play a vital role in biochemical pathways. This will assist in the fields of life science and drug discovery. The first major product to be developed, 'HyperSense', was officially launched at the annual ENC (Experimental NMR Conference) tradeshow in April 2006. Several beta sites have been successfully installed and are generating exciting new information. We now have five collaboration programmes with major academic institutes. Ahead of forecasts we have now taken three orders in addition to our beta site installations. A state of the art DNP-NMR applications facility has now been set up at the Tubney Woods site to develop analytical protocols, to run customer samples and to generate novel applications in biomolecular analysis.

Within Molecular Biotools the Resonance Instruments business, acquired in September 2004, had a good year and showed growth in both revenue and trading profit. A new bench top NMR instrument 'MQC' for quality analysis and control for food and chemical manufacture was launched in April 2006. This product has been well received and is now in production.

Superconducting wire revenue continued to grow, with reduced demand from within the Group more than offset by increased third party customer requirements. This reflected 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 International Thermonuclear Energy Reactor (ITER) project, an internationally backed programme aimed at generating huge quantities of power, will provide an opportunity for significant additional wire volumes in the coming years, both directly and in collaboration with other worldwide producers. We have supplied materials under the qualification programme and have met the required

thinking **deeper**...

The next generation of powerful, integrated computers, mobile phones and portable devices will require smaller, faster and less power-hungry electronic components. In making smaller semiconductor chips, the complex series of layers and inter-layers which make up the structure of the chip must also be made thinner.

Atomic layer deposition (ALD) looks set to become the technology of choice for doing so. ALD is also of interest in fuel cells, which offer clean renewable energy by running on hydrogen and emitting only water.

Micro-mechanical devices are now becoming widespread, particularly in automotive applications such as tyre pressure sensors and airbag sensors, and ALD technology provides a method of coating tiny parts with a hard, wear-resistant coating.

By offering new, innovative tools like 'FlexAL', Oxford Instruments is enabling its customers to make the strides in nanotechnology which will turn these ideas into everyday reality.

specification. For about five years this programme will significantly increase the amount of superconducting wire produced worldwide. We are finalising our plans to invest in new plant to support this activity and the rest of the wire business.

The MRI magnet service business revenue grew during the year reflecting the steady increase of the installed base in both American and Japanese hospitals. As the organisation grows in both countries it is able to offer an increasingly attractive service to its customers. The USA maintenance support contract with Siemens was renegotiated and extended.

The Austin Scientific cryogenic pump and compressor business had an excellent year with growth in both revenue and profits. Additionally there was a better revenue balance between the US domestic and international markets.

Accounting policies

This is the first set of accounts which the Group has prepared under International Financial Reporting Standards. An explanation of the accounting adjustments on transition can be found in Note 37.

Details of the Group's accounting policies can be found on pages 40 to 45. In addition Note 35 sets out the main areas of judgement in applying those policies.

The principal exchange rates used to convert foreign currencies are set out in Note 38.

Revenue and trading profit for the underlying business

The underlying business comprises all of the Group's activities except the restructured magnet business. Group revenue for the year to 31 March 2006 of £153.8 million was £18.2 million higher than the previous year, the increase reflecting a mixture of organic growth and the impact of the acquisitions in the current and previous period. The Group trading profit was £6.9 million down £2.2 million from the previous year. However, the £6.9 million includes a charge of £2.7 million arising from the incremental product development expenditure initiative announced in June 2005 and so on a like for like basis Group trading profit before incremental product development expenditure was £9.6 million, up £0.5 million on the previous year.

The relative stability of exchange rates during the year meant that foreign exchange had only a limited impact on revenue and trading profit for the year.

The results summarised by business segments are set out in Note 1 on the Financial Statements. For the underlying business gross profit as a percentage of revenue was 31.5%, an increase of 0.2% over the previous year. This reflected improved manufacturing yield and low cost outsourcing programmes offset by sales price erosion in certain specific markets and higher raw materials prices, particularly copper.

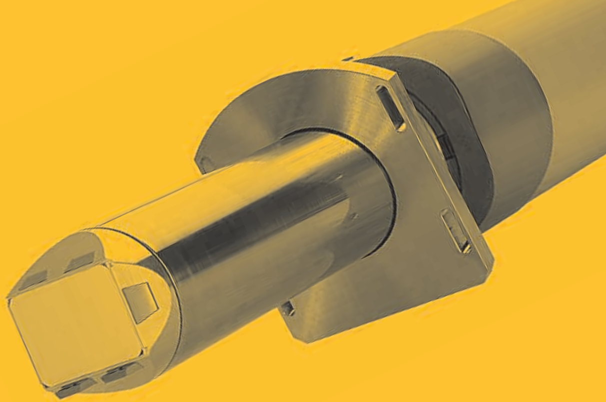
Overheads were higher reflecting recent acquisitions, expansion of the sales and distribution network, the absence of favourable foreign exchange contracts which benefited the prior year and an increase in research and development expenditure.

Investment in research and development (R&D)

The total amount of cash spent on research and development by the underlying business in the year was £12.3 million, up £3.3 million on the prior year. This was made up as shown below.

The net book value of capitalised R&D at the end of the financial year was £5.5 million (2005 £4.0 million) and consisted mainly of the development costs of new generation Analytical instruments. R&D capitalised in the year represented 21% (2005 13%) of the total cash spent on R&D.

Investment in research and development	**2006 £ million**	2005 £ million
Research and development as shown in the income statement	**10.8**	9.2
Removal of amortisation of previously capitalised research and development	**(1.1)**	(1.4)
Cash spend charged to the income statement	**9.7**	7.8
Add research and development spend capitalised in the year	**2.6**	1.2
Total cash spent on research and development in the year	**12.3**	9.0



knowing **more**.

How do you make steel stronger, safer, and yet lighter? Metallurgists are answering this question by working on the nano-scale properties of steels using two of Oxford Instruments' 'INCA' microanalysis systems.

By being able to measure the imperfections in the structure of the steel, manufacturers can improve their processes to eliminate those that are harmful leaving cleaner, stronger steel. They can then investigate how the structure of the steel behaves, and develop new materials which in effect transform from one type of steel to another on impact. So, even using less steel, cars protect passengers in a crash.

Lighter stronger steels means less weight in cars, burning less fuel, and decreasing carbon dioxide production. When we use less steel, we use less energy to make steel. 'INCASteel' and electron backscatter diffraction from HKL are helping steel makers to make these new materials and reduce harmful environmental effects.

Other operating income, amortisation of acquired intangibles and non-recurring items

Other operating income included a profit of £1.7 million on disposal of the Group's minority holdings in Target Systemelectronic GmbH and Target Instruments Inc as well as a profit of £0.2 million on the disposal of the surplus Oak Ridge Tennessee site and a gain of £0.1 million on the sale of part of the minority shareholding in ARKeX Limited.

Amortisation of other intangibles of £0.2 million (2005 £1.3 million) relates to the amortisation of certain customer related intangible assets acquired as part of the Resonance and Metorex acquisitions made in 2005.

In February 2006 the Company announced the restructuring of its UK Superconductivity businesses. This involved the consolidation of all the UK magnet and cryogenic expertise and resources at the Company's Tubney Woods site and closure of the Eynsham factory. Restructuring and non-recurring costs of £6.6 million reflect the associated costs, including redundancy and removal costs as well as inventory write-offs reflecting the decision to focus on bespoke NMR magnets in future instead of providing a field strength range of standard NMR magnets. There is also a charge of £0.1 milliion relating to redundancies at Plasma Technology.

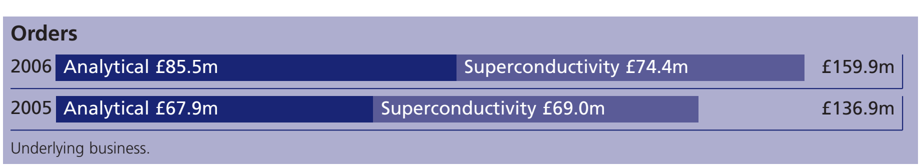
Financial income and expenditure

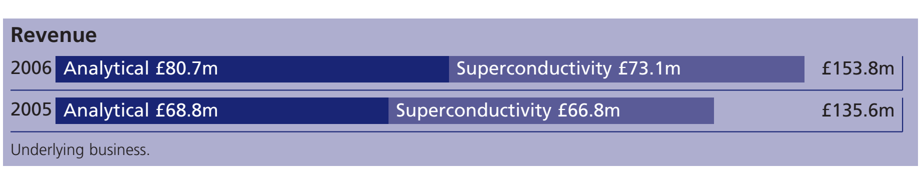
Within financial income and expenditure total net interest receivable was £0.3 million (2005 £0.5 million). The interest charge on pension scheme liabilities exceeded the expected return on pension scheme assets by £0.7 million (2005 £0.5 million).

Taxation

The underlying tax rate on the profit before income tax for the continuing businesses before other operating income, restructuring and other non-recurring and amortisation of acquired intangibles was 55% (2005 36%). The key factors influencing the rate of tax are the UK corporate tax rate of 30% and higher tax rates in overseas jurisdictions such as USA, Germany and Japan coupled with the inability to offset losses arising in one jurisdiction against profit arising in another.

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 £19.1 million (2005 £15.1 million) has been recognised against timing differences and unused capital allowances, of this £16.5 million (2005 £13.1 million) relates to the deficit in the pension schemes. No deferred tax asset has been recognised against past UK tax losses.





Earnings

After a total tax charge of £2.5 million (2005 £1.7 million) the net loss for the financial year was £3.4 million. In the previous period the net profit after taxation was £5.6 million including a profit from discontinued operations of £7.2 million.

With a weighted average number of shares of 47.7 million (2005 47.1 million) the total basic earnings per share was a loss of 7.2 pence (2005 profit 12.2 pence). After adjusting for non recurring items and amortisation the earnings per share of the underlying business was 9.1 pence (2005 13.9 pence).

Dividends

The Group's proposed final dividend of 6.0 pence per share (2005 6.0 pence), payable on 27 October 2006, makes a total dividend for the year of 8.4 pence per share and remains the same as last year, excluding the special dividend of 25.0 pence per share paid in March 2005 following the disposal of the Medical business. Dividend cover for the underlying business before other operating income, non-recurring items and amortisation of acquired intangibles amortisation was 1.1 times.

Employees

The number of permanent employees at 31 March 2006 was 1,290 compared with 1,295 at 31 March 2005. Shortly after the year end a further 43 employees left the UK Superconducting business following the closure of the Eynsham factory.

Pensions

Overall the deficit in the UK pension scheme increased by £9.4 million to £49.9 million. Assets of the scheme at 31 March 2006 were £123.3 million. Despite an increase in assets of £22.2 million over the year this was more than offset by the combined effect of a reduction in the discount rate applied to liabilities and a further change in the mortality tables. An actuarial valuation as at 31 March 2006 is in progress and once the results are available to the Company and the Pension Trustee Directors a long term plan for funding the deficit will be agreed which is acceptable to all parties.

By the end of March 2006 £1.8 million of the special contribution of £6.0 million referred to last year had been paid into the scheme. The balance will form part of the long term funding plan.

Acquisitions

In April 2005 the Group acquired the share capital of HKL Technologies A/S, based in Hobro, Denmark. A total cash consideration of £2.1 million was paid during the year with a further estimated £0.3 million due to be paid based on the level of post acquisition sales revenue growth. HKL is a supplier of electron backscatter diffraction devices used in conjunction with electron microscopes. The revenue of HKL in the year was £1.8 million on which it made a small contribution to trading profit of £0.1 million.

Trading profit

Underlying business, before non-recurring items and intangible amortisation.

Discontinued business

The Group's Medical business was sold to VIASYS Healthcare Inc on 1 March 2005 and has been treated as a discontinued business in the prior year results.

Segment assets

Segment assets increased by £8.9 million to £67.6 million reflecting an increase in working capital and capitalised R&D. As a result of this increase and the reduction in trading profit resulting from the increased product development spend, return on segment assets reduced by 3.3% to 9.9%.

Cash

The Group began the year with net cash (cash less overdrafts and bank borrowings) of £26.5 million and ended the year with net cash of £9.8 million, an outflow of £16.7 million. Gross cash was £13.9 million (2005 £29.7 million) with bank loans and overdrafts amounting to £4.1 million (2005 £3.2 million). Principal contributors to the outflow were an operating cash outflow of £4.7 million relating mainly to increased working capital, acquisition of new plant and machinery of £4.2 million and acquisitions £3.9 million.

The group intends to use the surplus cash to fund acquisitions as and when suitable opportunities present themselves. There are no plans at present to return cash to shareholders.

At the year end the Group's bank facilities were sufficient for its short term needs. In addition to multi-currency overdraft and short term borrowing facilities of £30.9 million (or the foreign currency equivalent) available to the Group at 31 March 2006, the Group had contractually committed unsecured facilities of £15.0 million. At 31 March 2006 none of the committed facilities and only £4.1 million of the uncommitted facilities were in use.

There are no known restrictions on the ability of the Group to transfer funds within the organisation.

Further details on treasury management and policy can be found in Note 21.

Capital structure

Shareholders' funds at the year end were £46.4 million (2005 £58.0 million), or 95 pence per share (2005 120 pence per share). There were no net borrowings. After provision for the interim dividend (paid after the period end) and the proposed final dividend, distributable reserves of the Company were £87.2 million.

There was no change in the capital structure of the Company during the year. At the year end the number of shares issued was 48.7 million (2005 48.3 million) ordinary shares of 5p each.

Underlying business, before other operating income, amortisation of intangibles and restructuring and other non-recurring costs.

Underlying business.

0.4 million new ordinary shares were issued in the year representing 0.9% of the total issued share capital at the year end. Under various employee share option schemes, set out in Note 25 a further 2.7 million 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 5.5%. In addition 0.6 million issued shares are held in trust in relation to the share option schemes.

Balance sheet

Net operating assets, excluding acquired intangibles, increased by £7.3 million to £57.5 million. Net working capital increased by £5.4 million. This is reflected in an increase in the net working capital to sales ratio from 14.9% to 17.1%. Stock increased from prior year by £3.2 million reflecting acquisitions, higher stock levels to allow faster response to customer enquiries and more demonstration stock relating to new products. Debtor days for the continuing businesses increased from 48 days to 51 days.

An analysis of tangible fixed assets is shown in Note 15. The increase in net book value of fixed assets of £0.4 million reflected expenditure on new assets at a level slightly in excess of depreciation and the net book value of disposals.

Goodwill increased by £1.7 million reflecting goodwill of £2.2 million arising on the acquisition of HKL Technologies (see Note 14) an exchange gain of £0.3 million and a £0.8 million reduction of the goodwill arising on Metorex acquisition due to recognition of a deferred tax asset in respect of certain tax losses now utilised.

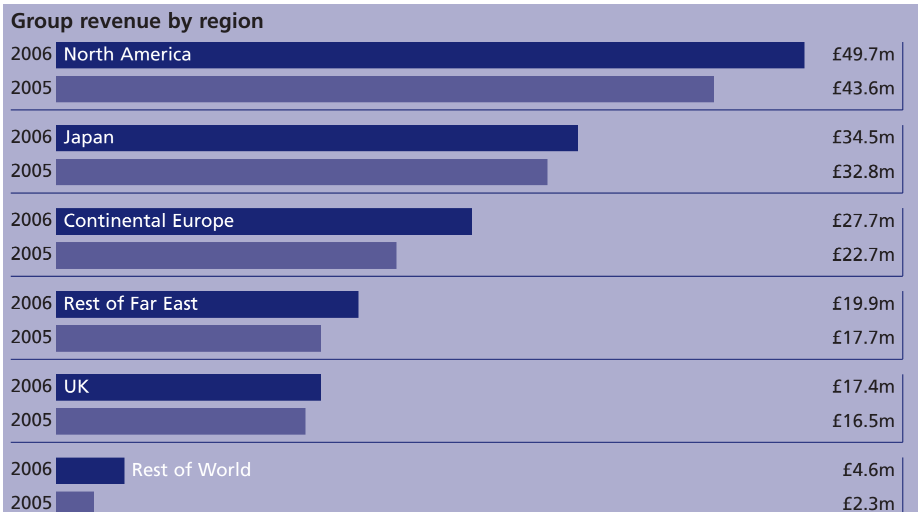
Share price

The closing mid-market price of the ordinary shares at the end of the financial year was £2.00, compared with £2.49 at the beginning of the year. The highest and lowest prices recorded in the financial year were £2.54 and £1.97 respectively. At the close of trading on 13 June 2006 the share price was £2.05.

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.

Group revenue by region



Underlying business.

Chairman

Nigel Keen, 59, Non-Executive Chairman, joined the Board in 1999. He is Chairman of The Laird Group PLC, Axis-Shield plc and Deltex Medical Group plc.

Executive Directors

Jonathan Flint, 45, 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, 62, joined Oxford Instruments plc in 1985 as Group Financial Director. He has a BA in Industrial Economics from Nottingham University. Previously he was with Glaxo Group plc and BOC Limited.

Charles Holroyd, 50, was appointed to the Board as Group Operations Director in November 2005, having joined Oxford Instruments in November 1999. He has a BSc in Electrical and Electronics Engineering from Bristol University and an MBA from INSEAD. Previously he held senior management positions within United Industries plc, B Elliott plc, Bowthorpe plc and Chloride Group plc.

Steven Parker, 55, was appointed to the Board as Group Commercial Director in November 2005, having joined Oxford Instruments in July 2002. He has an MBA from Wake Forest University and BA in Economics from Randolph-Macon College. Previously he was with Compagnie de Saint-Gobain and AlliedSignal Inc (now Honeywell Inc).

Non-Executive Directors

Professor Sir Michael Brady, 61, Deputy Chairman and 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, a Director of ISIS Innovation Limited and Senior Independent Director of Ixico Ltd.

Professor Michael Hughes, 61, Independent Non-Executive Director, joined the Board in November 2004. He is Chairman of EA Technology Limited, a Non-Executive Director of South Staffordshire Group plc and Non-Executive Chairman of Cyan Holdings plc.

Peter Morgan, 70, 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 Consulting plc. He is a member of the Council of Lloyd's and a Director of the Association of Lloyd's Members.

Bernard Taylor, 49, Independent Non-Executive Director, joined the Board in 2002 and is Chief Executive of Braveheart Financial Services Limited. He is a member of The Council of the University of Oxford and is Chairman of the University's Audit Committee. He is 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.

Martin Lamaison will retire as Group Financial Director and Company Secretary with effect from 7 August 2006. Kevin Boyd, currently Group Finance Director of Radstone Technology plc, will replace him.

The **Board**

Nigel Keen, Jonathan Flint, Martin Lamaison,
Charles Holroyd, Steven Parker, Mike Brady,
Michael Hughes, Peter Morgan and Bernard Taylor.

Directors

The following Directors served throughout the year except as noted:

N J Keen FCA, Chairman
M Brady FREng FRS, Deputy Chairman
D J Flint, Chief Executive (from 5 April 2005)
M Lamaison FCA, Financial Director and Company Secretary
C J A Holroyd, Group Operations Director (from 22 November 2005)
S M Parker, Group Commercial Director (from 22 November 2005)
M A Hughes
P W L Morgan
B J Taylor

Board Committees

Audit: Peter Morgan, Chairman; Mike Brady; Bernard Taylor; Mike Hughes
Remuneration: Nigel Keen, Chairman; Mike Brady; Peter Morgan; Mike Hughes
Nomination: Nigel Keen, Chairman; Mike Brady; Peter Morgan; Bernard Taylor; Mike Hughes
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

The **Business** of Science

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The Directors present their Report and the Financial Statements of Oxford Instruments plc for the year ended 31 March 2006.

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 high technology tools and systems for industry and research. The business, the strategy, the research and development activities and likely future prospects are reviewed in the Chairman's Statement on pages 2 and 3, the Chief Executive's Review on pages 4 to 6, and the Business and Financial Review on pages 8 to 17.

Acquisitions and disposals

Details of acquisitions and disposals are set out within the Business and Financial Review on page 15 and within Note 14 on the Financial Statements.

Results and dividends

The results for the year are shown in the Group Income Statement on pages 46 and 47. The Directors recommend a final dividend of 6.0p per ordinary share, which together with the interim dividend of 2.4p per ordinary share makes a total of 8.4p per ordinary share for the year (2005 33.4p this included a special interim dividend of 25.0p). Subject to shareholder approval, the final dividend will be paid on 27 October 2006 to shareholders registered at close of business on 29 September 2006.

Directors

Profiles of all the Directors at the date of this report, including the Non-Executive Directors, appear on page 18. All the Directors served on the Board for the whole year under review with the exception of Jonathan Flint who was appointed to the Board on 5 April 2005 and Charles Holroyd and Steve Parker, who were appointed to the Board on 22 November 2005 as Executive Directors.

Directors' interests

The beneficial interests of the Directors in the Company's share capital, all in fully paid up shares at 31 March 2006 are shown below. Details of share options are shown in the Directors' Remuneration Report on pages 32 to 37.

	2006 Shares	2005 Shares
Mike Brady	**2,500**	2,500
Jonathan Flint	**–**	–
Charles Holroyd	**24,561**	24,561
Mike Hughes	**–**	–
Nigel Keen	**111,580**	85,000
Martin Lamaison	**51,315**	51,035
Peter Morgan	**10,000**	10,000
Steve Parker	**–**	–
Bernard Taylor	**190**	190

No Director was beneficially interested in the shares of any subsidiary company at any time during the year. In the year to 31 March 2006 no Director had a material interest in any contract of significance with the Company or any of its subsidiaries other than the contract between Imperialise Limited and the Company for the services of Nigel Keen.

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 430,375 new shares were issued (2005 218,330). Details are set out in Note 25 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 13 June 2006:

	Shares 000	% of total
Aberforth Partners	11,589	23.8
Hermes Pension Management Ltd	4,117	8.4
Sir Martin and Lady Audrey Wood	3,487	7.2
GAM London Limited	2,910	6.0
Credit Suisse Asset Management Ltd	2,746	5.6
AVIVA plc	1,806	3.7
HBOS plc	1,725	3.5
Howson Tattersall Investment Counsel	1,645	3.4
Legal & General Investment Management Ltd	1,622	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 2006 were equivalent to 35 days' (2005 40) and 38 days' (2005 41) purchases respectively, based on the average daily amount invoiced by suppliers to the Company and Group's UK subsidiaries during the year.

Disclosure of information to Auditors

Pursuant to Section 234ZA(2) Companies Act 1985 the Directors who held office at the date of this Directors' Report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's Auditors are unaware; and each Director has taken all the steps that he might reasonably have been expected to have taken as a Director to make himself aware of any relevant audit information and to establish that the Company's Auditors are aware of that information.

Annual General Meeting

The Notice of the Annual General Meeting to be held on 26 September 2006 is set out on pages 94 to 97 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
13 June 2006

Principles

Oxford Instruments is committed to responsible corporate behaviour. This governs the way we provide sustainable value for our shareholders through our interaction with all key stakeholders: customers, business partners, employees, suppliers and the setting in which we operate, including governments, society, local communities, and the environment.

The Company's reputation, together with the trust and confidence of those with whom it deals, is one of its most valuable assets. It is therefore essential that all employees accept responsibility for maintaining Oxford Instruments' excellence in this area.

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.

Corporate values

The Group has chosen the following six corporate values:

Inspiration	Responsibility	Working smarter
Integrity	Agility	Will to win

It is made clear to employees that Oxford Instruments' corporate values must underpin all that we do and examples of how this works in practice are discussed with employees. These Company values are used to guide the way in which we work and are an integral part of our internal communications.

Corporate accountability

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.

Ethical trading

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. We have a clear code of ethics, which is given to all new employees and is available at all times to all employees.

A fair and open culture is fostered in which everyone's views and contributions are encouraged and respected. 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. Key suppliers are audited prior to being appointed to ensure that their principles match our own.

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

Health & 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 Group Health, Safety and Environment Manager is responsible for coordinating this and for sharing knowledge and best practice across the Group.

All businesses within the Group recognise the importance of keeping all employees updated on health and safety issues, and of bringing to their notice a written statement of the 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 suggest improvements that can be made in work conditions and practices. In order to maintain high standards throughout the Group training courses are run regularly and risk assessments are conducted to ensure staff are working in a comfortable and safe environment. Action is taken when required.

All businesses report to the Board annually on the progress with their health and safety objectives and goals, including actions taken.

Environmental issues

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 operating 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. Oxford Instruments' products make a significant contribution to society across numerous fields. Our magnet and cryogenic products are used by scientists to enable groundbreaking 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 Electrical and Electronic 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.

Shareholders

We provide timely and accurate information to all shareholders on our activities and performance. To deliver shareholder value we seek to use assets wisely and maintain these with the utmost care and respect, guarding against waste and abuse. We are cost-conscious and alert to opportunities for improving performance whilst reducing costs.

Employees

As a knowledge based company our employees are our most important asset. Relations with our employees are based on respect. We are committed to a working environment where there is mutual trust and respect and where everyone is accountable for their own actions and believes themselves to be responsible for the performance and reputation of our Company.

We aim to recruit, employ and promote employees on the sole basis of their ability and are committed to developing and enhancing each employee's skills and capabilities. Our policies are designed to provide employees with safe and healthy working conditions and practices, and to enable everyone to work free from discrimination, harassment or bullying of any kind.

In return we expect our employees to act with integrity and maintain high ethical standards.

Our aim is to ensure there are equal opportunities for all employees with no discrimination on account of race, age, gender, sexual orientation, disability, and 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, Executive Share Options granted to management, and through bonus schemes based on financial performance.

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 and half-yearly Chief Executive's updates on financial performance and progress against strategy. 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.

Employees cannot engage in an activity for personal gain that is in conflict with the Company's business interests or applicable law, and must disclose to the Company any personal interest, or interests of their immediate family that could create a potential conflict of interest.

Customers

We believe that integrity in dealing with customers is a prerequisite for a successful and sustained business relationship. This principle governs all aspects of our approach. We value our customers and the trust that they place in us. We will safeguard the information provided to us by our customers in accordance with relevant laws and contractual commitments.

Business partners

We are committed to establishing mutual trust and mutually beneficial relations with our other business partners, namely suppliers, banks and collaborative associates. In our business dealings we expect our partners to respect our business principles and in turn, we respect theirs. Protecting intellectual property would be an example of this.

We have a full audit process when considering a new major supplier which covers good business and corporate practice.

Regulators

It is Company policy to cooperate fully with all enquiries from any regulatory authority.

Communities

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 £5,420 (2005 £30,000) 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 2006 spent £22,000 (2005 £65,000) providing student sponsorship in the UK. The Group also sponsors a number of international awards and events 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
13 June 2006

Introduction
The Board is committed to ensuring that high standards of corporate governance are maintained by the Group. 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 since 1 April 2004 and complies with the Code, except as detailed below.

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 page 33 in respect of provision B.1.1. This provision relates to the inclusion of cash bonuses for pension purposes.

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 four Executive Directors. For Board biographies and details of length of service, please see page 18. 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.

General Committee Management Team
The Board delegates management of the business to the Chief Executive. To assist in this, the Chief Executive has created a General Committee. Headed by the Chief Executive, the General Committee comprises the Group Financial Director, the Group Commercial Director, the Group Operations Director, the Managing Director of the Oxford Instruments Innovation group and the Group Director of Human Resources.

Executive Committee Management Team
The General Committee is supported by an Executive Committee which comprises all members of the General Committee with the addition of the Managing Directors of each of the individual strategic customer facing businesses, for which they are financially responsible.

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 2005 the Board reviewed and 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, major contracts and 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 General Committee, which meets at least twice a month and the Executive Committee, which meets once a month, both either physically or by video or telephone conference, focus on group-wide performance and risk management. Each of the individual strategic businesses holds monthly management 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 strategic businesses 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 the Company Secretary's Office 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 of 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. Nigel Keen also serves as Chairman of Oxford Instruments Pension Trustees Limited which is responsible for the UK defined benefit scheme.

Appointments to the Board

There is a formal, rigorous and transparent procedure for the appointment of new Non-Executive 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. A 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 several Directors 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 Non-Executive 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.

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 award presentations.

The Company Secretary and his office act as advisers to the Board on matters concerning governance and ensure compliance with Board procedures. 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 and removal of the Company Secretary are matters for the Board as a whole.

Board evaluation

In the year ended 31 March 2006 the Board completed its annual effectiveness evaluation exercise, including a specific review of the effectiveness of its principal committees and members. 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 following table explains the Board assessment process and highlights which Board members completed anothers' assessment questionnaire:

Role being reviewed	Self	Questionnaires completed by Directors
Chairman	Yes	Deputy Chairman and Chief Executive
Non-Executive Directors	Yes	Chairman and Executive Directors
Chief Executive	Yes	Chairman, Deputy Chairman and Executive Directors
Financial Director	Yes	Chairman and Chief Executive
Executive Directors	Yes	Chairman and Chief Executive

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 2006:

	Board	Audit Committee	Remuneration Committee	Nomination Committee
No of meetings held	15	7	3	3
Nigel Keen	15	7 [1]	3	3
Jonathan Flint	15	7 [1]	2 [1]	2 [1]
Martin Lamaison	15	7 [1]	2 [1]	2 [1]
Charles Holroyd [2]	5	2 [1]	–	–
Steve Parker [2]	5	2 [1]	–	–
Mike Brady	13	4	2	2
Peter Morgan	15	7	2	2
Bernard Taylor	12	7	3	3
Mike Hughes	14	7	3	3

1 in attendance by invitation of the Committee
2 appointed 22 November 2005

During the year five additional exceptional Main Board meetings were scheduled bringing the total number of Board meeting held for the year to fifteen. Due to illness Peter Morgan did not physically attend the Annual General Meeting, but he did join the Audit Committee and Main Board meetings held on that day by phone.

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 20. 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 the commitment that will be required of the potential Director.

The Nomination Committee 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 Nomination Committee also annually reviews the performance of the Chief Executive.

The Board is aware of the other commitments of its Directors and is satisfied that these do not conflict with their duties as 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 32 to 37.

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; and
- 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 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 2 on the Financial Statements.

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 both the resourcing and the 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 financial controls and risk management; and
- Reports on fraud perpetrated against the Group and current fraud trends.

The Group's business malpractice policy contains arrangements for the members of the Board to be involved in confidence by the investigating officer in the event of 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. 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.

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 comments 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 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 an 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 26 September 2006.

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 mis-statement 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 comprises the General Committee whose members have group wide financial responsibilities and to whom day-to-day responsibility for the management of the Group is delegated. The responsibility 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 Committee; 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; in addition the Executive Directors maintain a five year planning model of the Group and its individual strategic businesses;
- 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, is required to submit a self assessment internal control questionnaire on a regular basis;
- 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, due to language difficulties, 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;
- 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; and
- with respect to the UK pension scheme the Company has its own trustee representatives; involves its own independent actuary with whom actuarial assumptions are reviewed; agrees the investment policy with trustees; ensures there is an independent actuarial valuation every three years; reviews members benefits and contributions regularly; and audits the annual changes in pensionable salaries.

Martin Lamaison Company Secretary
13 June 2006

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 20. 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. The Chairman maintains contact with principal shareholders regarding remuneration policy as appropriate.

Over the past year the Committee continued to use New Bridge Street Consultants to provide independent external professional advice on the Executive Directors' remuneration.

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.

Executive Directors

The Company has an incentive-driven Executive Director remuneration policy that promotes the delivery of the Group strategy, 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 losses.

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.

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 and long term performance awards, pensions and other benefits. 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 UK based Executive Directors appointed up to April 2001, a contributory pension of up to two thirds of pensionable salary is provided on retirement related to the length of service, together with a dependants' pension on death in service or retirement. UK Executive Directors joining since April 2001 are entitled to Company contributions to a defined contribution scheme of their choice in accordance with contractually agreed contribution rates. Steve Parker, who is based in the US, is a member of the Oxford Instruments Holdings Inc Defined Benefit Pension Plan. This Plan is non-contributory on the part of the participant and requires five 1,000 hour years of employment before the participant realises any vested interest in the plan. Upon Normal Retirement Date (age 65), the participant is then entitled to a monthly pension benefit based on an actuarial calculation taking into effect his years of service, age, and the salary earned over the last five years of employment. He is also a member of the Oxford Instruments Inc 401k Savings Plan, in which the Company matches at half the employee's contribution rate up to the first 6% of salary. Employees' contributions fully vest after three years of service.

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

	Salary £000	Benefits £000	Performance related remuneration £000	Total Remuneration **2006 £000**	2005 £000
Jonathan Flint	250	13	87	**350**	–
Martin Lamaison	200	13	50	**263**	332
Steve Parker	143	6	46	**195**	–
Charles Holroyd	140	11	42	**193**	–
Total	733	43	225	**1,001**	332

Charles Holroyd and Steve Parker were appointed to the Board on 22 November 2005. The table shows their remuneration for the whole year, including remuneration prior to and after the date of appointment. It includes both remuneration for their roles as Executive Directors as well as their functional responsibilities elsewhere in the Group.

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 between 60% to 75% of base salary dependent on the role of the participant. Bonuses are earned primarily on the achievement of financial targets, with further elements payable on meeting specific personal goals. Bonuses are paid after the completion of the statutory annual audit.

The Executive Directors' bonus scheme for the year ended 31 March 2006 set performance targets which would pay bonuses for on target performance at the rate of 50% of base salary for Jonathan Flint, 35% of base salary for Martin Lamaison and Charles Holroyd and 45% of base salary for Steve Parker.

Pension Plans

Oxford Instruments Pension Scheme

All employees, including the Company's UK based Executive Directors, who were engaged before April 2001 were entitled to become members of the Oxford Instruments Defined Benefit 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 accrual 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 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 dependant'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 Holdings Inc
Defined Benefit Pension Plan (USA)

All employees of Oxford Instruments Superconducting Technology and Austin Scientific engaged before 1 February 2006 were entitled to become members of the Oxford Instruments Holdings Inc defined benefit Pension Scheme. The scheme provides a benefit to eligible participants with effect from the date that the employee has completed one thousand (1,000) hours of service in any one year. Employees remain participants until the entire amount of benefit is distributed (if any) to the employee or to a beneficiary in the event of the death of the participant.

Employees do not contribute to this scheme.

The benefit terms are complex but in simple terms the plan provides accrued benefit equal to 1.6% of average annual compensation multiplied by the number of years of credited service (not to exceed 35 years).

Vesting, or the opportunity to have a monetary interest in the plan, is based on 'cliff vesting'. This means that the participant must have five years, each with one thousand hours of service, at the termination of employment or after having reached normal retirement date, in order to receive any retirement benefit from the plan.

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.

The Oxford Instruments Holdings Inc
Savings & Investment Plan 401K (USA)

This is a savings plan open to all USA employees of Oxford Instruments. It is viewed by the US government as a pension plan that supplements the US Social Security system. Therefore, all monies contributed to the plan on a calendar year basis are tax deferred until the monies are withdrawn by the participant.

A committee consisting of two company Trustees and three Plan Administrators administers the plan. This committee has the expertise of an elected outside 401K administration firm that provides fiduciary advice and counsel to the committee as well as a selection of investment vehicles to the participants.

Provided the employee does not exceed the maximum dollar value for contributions that the US government allows, the company matches the employee's contribution up to the first 6% of compensation. The employee may contribute more than 6% of compensation on a non-matched basis.

Vesting is as follows:
2 Years of Service = 25% vested in the employer's contributions
3 Years of Service = 100% vested in the employer's contributions

Executive Director pension arrangements

Under the terms of his service contract Jonathan Flint requested the Company to contribute to a pension plan of his own choice. The Company contributes a maximum of 14% of base salary if matched by a contribution of 10% by him. Cash bonuses are excluded from contribution calculations. During the year the Company contributed £35,000 to a defined contribution plan in respect of Jonathan Flint.

Martin Lamaison and Charles Holroyd are members of the UK Oxford Instruments Pension Scheme. On 31 May 2005 Martin Lamaison withdrew from the Pension Scheme as an active member and ceased to accrue benefit from this date. By the year end he had not started to draw his entitlement.

With respect to the UK Pension Scheme the following table shows 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 2006 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
Martin Lamaison	62	21	4	22	20	95
Charles Holroyd	50	6	10	2	2	13

	Transfer value of accrued pension 2006 £000	Transfer value of accrued pension 2005 £000	Change in transfer value over year less member contributions £000
Martin Lamaison	**1,762**	1,306	452
Charles Holroyd	**130**	87	33

During the year the Company contributed £26,000 (2005 £17,000) to the Oxford Instruments 1998 Executive Pension Scheme in respect of Martin Lamaison.

Steve Parker is a member of the Oxford Instruments Holdings Inc Pension Scheme and Oxford Instruments Inc Savings and Investment Plan (401K). The Company contributed US$10,500 to the Oxford Instruments Holdings Inc Pension Scheme in respect of Steve Parker. No entitlement to benefits arises under this scheme until the individual has worked for the Group for five years. At the year end this condition has not been met in respect of Steve Parker. The Company also contributed US$7,200 to a defined contribution (USA 401K) plan on behalf of Steve Parker.

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 following 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 is 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 earnings per share ('EPS') performance (adjusted to exclude non-recurring 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 below.

Only 50% of the options granted in September 2001 are exercisable, as the TSR performance test failed and none of the options granted in 2002 are exerciseable due to failure of both tests.

The options granted in July 2003 will become exercisable proportionately by reference to the level of both TSR and EPS target growth performance achieved as follows:

EPS/TSR performance	Proportion of 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 the TSR and EPS target performance levels are:

EPS/TSR performance	Proportion of 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.

It was resolved at last year's Annual General Meeting that various amendments should be made to the 2001 ESO 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 unapproved options of the Scheme.

Under SAR an option holder 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 option holder may become entitled depends on the Company's share price at the time of exercise.

No SARs have been granted since authorisation.

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.

SAYE options

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

As at the 31 March 2006 the outstanding options for Jonathan Flint, Martin Lamaison, Charles Holroyd and Steve Parker under the 1995 and 2001 ESO schemes, the SELTIS scheme, Individual options and SAYE were as follows:

	Scheme	2006	Number of options during the year Granted	Exercised	Lapsed*	2005	Exercise price	Date for earliest exercise	Date for latest exercise
Jonathan Flint	SELTIS	**50,000**	50,000	–	–	–	Nil	15/07/08	15/07/12
	ESO	**200,000**	200,000	–	–	–	£2.19	15/07/08	15/07/15
Martin Lamaison**	SAYE	**636**	–	–	–	636	£1.74	01/02/07	31/07/07
	SAYE	**–**	–	(280)	–	280	£1.35	01/02/06	31/07/06
	ESO	**145,128**	–	–	–	145,128	£2.18	15/07/07	14/07/14
	ESO	**154,340**	–	–	–	154,340	£1.875	15/07/06	14/07/13
	ESO	**–**	–	–	(105,726)	105,726	£2.22	15/07/05	14/07/12
	ESO	**128,125**	–	–	–	128,125	£1.585	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
Charles Holroyd	SAYE	**699**	699	–	–	–	£2.14	01/02/09	31/07/09
	SAYE	**649**	–	–	–	649	£1.75	01/02/08	31/07/08
	SAYE	**636**	–	–	–	636	£1.74	01/02/07	31/07/07
	SAYE	**280**	–	–	–	280	£1.35	01/02/06	31/07/06
	ESO	**40,000**	40,000	–	–	–	£2.19	15/07/08	14/07/15
	ESO	**50,000**	–	–	–	50,000	£2.18	15/07/07	14/07/14
	ESO	**50,000**	–	–	–	50,000	£1.875	15/07/06	14/07/13
	ESO	**–**	–	–	(67,000)	67,000	£2.22	15/07/05	14/07/12
	ESO	**26,500**	–	(53,000)	–	79,500	£1.585	28/09/04	27/09/11
	SELTIS	**20,000**	20,000	–	–	–	Nil	15/12/08	14/12/12
Steve Parker	ESO	**40,000**	40,000	–	–	–	£2.19	15/07/08	14/07/15
	ESO	**60,000**	–	–	–	60,000	£2.18	15/07/07	14/07/14
	ESO	**70,000**	–	–	–	70,000	£1.875	15/07/06	14/07/13
	ESO	**30,000**	–	–	(30,000)	60,000	£1.48	15/07/05	14/07/12
	SELTIS	**20,000**	20,000	–	–	–	Nil	15/12/08	14/12/12

* Lapsed as the performance condition was not met in the required timeframe.

** Martin Lamaison will retire on 7 August 2006. On retirement the latest date for exercise of his SAYE, ESO and individual options will become 6 February 2007, 6 August 2007 and 6 August 2007 respectively. The date for latest exercise of his SELTIS options will remain unchanged.

Charles Holroyd made gains of £30,408 (2005 £52,180) on the exercise and sale of share options during the year to 31 March 2006, and Martin Lamaison made gains of £267 (2205 £1,094) but this gain has not been realised as the shares to which they relate have not been sold. Cumulatively Martin Lamaison, Charles Holroyd and Steve Parker have 194,125 options, 26,780 options and 30,000 options respectively under various schemes capable of exercise.

Outside appointments

The Board allows Executive Directors to accept appropriate outside commercial 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 £81,282 (2005 £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 £10,408 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 direct to the UK Inland Revenue and therefore not included in the table below.

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 commitment 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 eleven 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:

	2006 £000	2005 £000
Nigel Keen, Chairman	**92**	74
Mike Brady	**29**	25
Mike Hughes	**25**	10
Peter Morgan	**29**	25
Bernard Taylor	**25**	25
Total	**200**	159

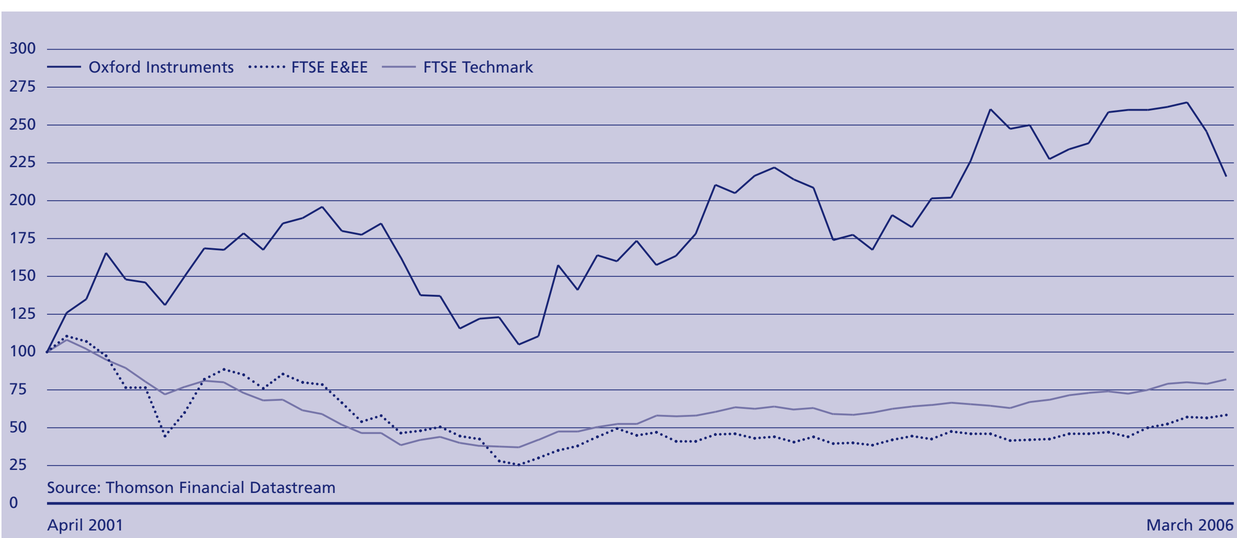
Performance graph

The graph below shows for the five years ended 31 March 2006 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 5 June 2006 and has been approved subsequently by the Board for submission to shareholders at the Annual General Meeting to be held on 26 September 2006.

Nigel Keen Chairman of the Remuneration Committee
13 June 2006



The directors are responsible for preparing the Annual Report and Accounts and the Group and Company financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare Group and Company financial statements for each financial year. Under that law they are required to prepare the Group financial statements in accordance with IFRSs as adopted by the EU and have elected to prepare the Company financial statements in accordance with UK Accounting Standards.

The Group financial statements are required by law and IFRSs as adopted by the EU to present fairly the financial position and the performance of the Group; the Companies Act 1985 provides in relation to such financial statements that references in the relevant part of that Act to financial statements giving a true and fair view are references to their achieving a fair presentation.

The Company financial statements are required by law to give a true and fair view of the state of affairs of the Company.

In preparing each of the Group and Company financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- for the Group financial statements, state whether they have been prepared in accordance with IFRSs as adopted by the EU;
- for the Company financial statements, state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the Company financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and the Company will continue in business.

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that its 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 Group and to prevent and detect fraud and other irregularities.

Under applicable law and regulations, the directors are also responsible for preparing a Directors' Report, Directors' Remuneration Report and Corporate Governance Statement that comply with that law and those regulations.

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

We have audited the Group and Parent Company financial statements (the "financial statements") of Oxford Instruments plc for the year ended 31 March 2006 which comprise the Group Income Statement, the Group and Parent Company Balance Sheets, the Group Cash Flow Statement, the Group Statement of Recognised Income and Expense and the related notes. These financial statements have been prepared under the accounting policies set out therein. 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' responsibilities for preparing the Annual Report and the Group financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU, and for preparing the Parent Company financial statements and the Directors' Remuneration Report in accordance with applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities on page 38.

Our responsibility is to audit the financial statements and the part of the Directors' Remuneration Report to be audited in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

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 and as regards the Group financial statements Article 4 of the IAS Regulation. We also report to you whether, in our opinion the information given in the Directors' Report is consistent with the financial statements. The information given in the Directors' Report includes that specific information presented in the Business and Financial Review that is cross referenced from the Business and Financial Review section of the Directors' Report. We also report to you if, in our opinion, 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 other transactions is not disclosed.

We review whether the Corporate Governance Statement reflects the Company's compliance with the nine provisions of the 2003 FRC Combined Code specified for our review by the Listing Rules of the Financial Services Authority, 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 other information contained in the Annual 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. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) 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 judgments made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Group's and Company'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 Group financial statements give a true and fair view, in accordance with IFRSs as adopted by the EU, of the state of the Group's affairs as at 31 March 2006 and of its loss for the year then ended;
- the Parent Company financial statements give a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the state of the Parent Company's affairs as at 31 March 2006;
- 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 and, as regards the Group financial statements, Article 4 of the IAS Regulations; and
- the information given in the Directors' Report is consistent with the financial statements.

KPMG Audit Plc
Chartered Accountants
Registered Auditor
2 Cornwall Street
Birmingham B3 2DL
13 June 2006

Oxford Instruments plc (the Company) is a company incorporated in Great Britain.

The Group financial statements consolidate those of the Company and its subsidiaries (together referred to as the "Group"). The parent company financial statements present information about the Company as a separate entity and not about the Group.

The Group financial statements have been prepared and approved by the Directors in accordance with International Financial Reporting Standards as adopted by the EU ("Adopted IFRSs"). The Company has elected to prepare its Parent Company financial statements in accordance with UK GAAP; these are presented on pages 87 to 93.

The accounting policies set out below have, unless otherwise stated been applied consistently to all periods presented in these Group financial statements and in preparing an opening IFRS balance sheet at 1 April 2004 for the purposes of the transition to Adopted IFRSs. The principal exception is that, as more fully explained below, financial instruments accounting is determined on different bases in the year ended 31 March 2006 and for the year ended 31 March 2005 due to the transitional provisions of IAS 32 and IAS 39.

As permitted by the standard, the Group has opted to include the requirements of IAS 19 (revised 2004): Employee Benefits, early rather than from its effective date of 1 January 2006.

(a) Transition to Adopted IFRSs

The Group is preparing its financial statements in accordance with Adopted IFRS for the first time and consequently has applied IFRS 1. An explanation of how the transition to Adopted IFRSs has affected the reported financial position, financial performance and cash flows of the Group is provided in Note 37.

In addition to exempting companies from the requirement to restate comparatives for IAS 32 and IAS 39, IFRS 1 grants certain exemption from the full requirements of IFRSs in the transition period. The following exemptions have been taken in these financial statements:

- Business combinations – Business combinations that took place prior to 1 April 2004 have not been restated.
- Fair value or revaluation as deemed cost – At the date of transition, fair value at the date of previous revaluation has been used as deemed cost for properties previously measured at fair value.
- Employee benefits – All cumulative actuarial gains and losses on defined benefit plans have been recognised in equity at 1 April 2004.
- Cumulative translation differences – Cumulative translation differences for all foreign operations have been set to zero at 1 April 2004.

(b) Basis of preparation

The financial statements are presented in £ sterling rounded to the nearest £100,000. They are prepared on the historical cost basis except that the following assets and liabilities are stated at their fair value: derivative financial instruments and financial instruments classified as available-for-sale.

The preparation of financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods. Further detail of the estimates and judgements made can be found in Note 35.

The accounting policies have been applied consistently by all of the Group's entities.

(c) Basis of consolidation

(i) Subsidiaries

Subsidiaries are entities controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable or convertible are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

(ii) Transactions eliminated on consolidation

Intragroup balances and any unrealised gains and losses or income and expenses arising from intragroup transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with associates and jointly controlled entities are eliminated to the extent of the Group's interest in the entity. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

(iii) Associates

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 amortised cost. The Group's share of the profits less losses of associates is included in the consolidated income statement and its interest in their net assets is included in investments in the consolidated balance sheet.

(d) Foreign currency

(i) Foreign currency transactions

Transactions in foreign currencies are translated at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to £ sterling at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated to £ sterling at foreign exchange rates ruling at the dates the fair value was determined.

(ii) Financial statements of foreign operations
The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on consolidation, are translated to £ sterling at foreign exchange rates ruling at the balance sheet date. The revenues and expenses of foreign operations are translated to £ sterling at rates approximating to the foreign exchange rates ruling at the dates of the transactions. Foreign exchange differences arising on translation are recognised directly in equity.

In respect of all foreign operations, any differences that have arisen after 1 April 2004, are presented as a separate component of equity.

(e) Derivative financial instruments
The Group uses derivative financial instruments to hedge its exposure to foreign exchange arising from operational and financing activities. In accordance with its treasury policy, the Group does not hold or issue derivative financial instruments for trading purposes. However, derivatives that do not qualify for hedge accounting are accounted for as trading instruments.

Derivative financial instruments are recognised at fair value. The gain or loss on remeasurement to fair value is recognised immediately in profit or loss. However, where derivatives qualify for hedge accounting, recognition of any resultant gain or loss depends on the nature of the item being hedged (see accounting policy f).

The fair value of forward exchange contracts is their quoted market price at the balance sheet date, being the present value of the quoted forward price.

(f) Hedging
(i) Cash flow hedges
Where a derivative financial instrument is designated as a hedge of the variability in cash flows of a recognised asset or liability, or a highly probable forecasted transaction, the effective part of any gain or loss on the derivative financial instrument is recognised directly in equity. When the forecasted transaction subsequently results in the recognition of a non-financial asset or non-financial liability, or a forecast transaction for a non-financial asset or non-financial liability the associated cumulative gain or loss is removed from equity and included in the initial cost or other carrying amount of the non-financial asset or liability. If a hedge of a forecasted transaction subsequently results in the recognition of a financial asset or a financial liability, the associated gains and losses that were recognised directly in equity are reclassified into profit or loss in the same period or periods during which the asset acquired or liability assumed affects profit or loss (i.e. when financial income or expense is recognised). For cash flow hedges, other than those covered by the preceding two policy statements, the associated cumulative gain or loss is removed from equity and recognised in the income statement in the same period or periods during which the hedged forecast transaction affects profit or loss. The ineffective part of any gain or loss is recognised immediately in the income statement.

When a hedging instrument expires or is sold, terminated or exercised, or the entity revokes designation of the hedge relationship but the hedged forecast transaction is still expected to occur, the cumulative gain or loss at that point remains in equity and is recognised in accordance with the above policy when the transaction occurs. If the hedged transaction is no longer expected to take place, the cumulative unrealised gain or loss recognised in equity is recognised immediately in the income statement.

(ii) Hedge of monetary assets and liabilities
Where a derivative financial instrument is used to hedge economically the foreign exchange exposure of a recognised monetary asset or liability, no hedge accounting is applied and any gain or loss on the hedging instrument is recognised in the income statement.

(iii) Effect of first time adoption of IAS 32 and IAS 39 on 1 April 2005
The Group has taken advantage of the transitional arrangements of IFRS 1 not to restate corresponding amounts in accordance with IAS 32 and IAS 39. Instead the following policies were applied in respect of financial instruments issued by the Group, investments in debt and equity securities, derivative financial instruments and hedging.

In the comparative period all financial assets and financial liabilities were carried at cost (amortised as appropriate) less, in the case of financial assets, provision for any permanent diminution in value. Gains and losses on forward foreign exchange contracts treated as hedging instruments were not recognised in the income statement. On recognition of the hedged transaction the unrecognised gains and losses arising on the investment were recognised, either in the income statement or combined into the carrying value of the associated asset or liability.

The following adjustments necessary to implement the revised policy have been made as at 1 April 2005 with the adjustment to net assets, after tax, taken through the 31 March 2006 statement of recognised income and expense. Corresponding amounts for 31 March 2005 are presented and disclosed in accordance with the requirements of the Companies Act 1985, SSAP 20 and FRS 4 as applicable in the year ended 31 March 2005. The nature of the main effects upon the consolidated balance sheet at 1 April 2005 are as follows:

	£m
Deferred tax	(0.1)
Trade and other receivables	(0.5)
Derivative financial assets	1.1
Cash and cash equivalents	(0.1)
Trade and other payables	(0.1)
Derivative financial liabilities	(0.1)
	0.2
Cash flow hedge reserve	0.2

The nature and main effects upon the consolidated balance sheet at 1 April 2005 and upon the consolidated income statement, the statement of recognised income and expense and cash flow statement to 31 March 2006 are as follows:

Hedging instruments and hedged items are accounted for separately in the balance sheet as at 31 March 2006. Gains and losses in both are included in profit for the year when they arise (fair value hedges) or when the hedged transaction occurs having first recorded those on the hedging instrument within equity (cash flows hedges, to the extent effective). As at 31 March 2005 hedging instruments were not recognised and hedged items were held at cost (amortised as appropriate) without an adjustment in respect of the hedging risk. On 1 April 2005 the hedging items and hedging instruments are brought separately on to the balance sheet in accordance with the policy for the year to 31 March 2006. In the cash flow statement opening cash is revalued from contract rate to spot rate.

(g) Property, plant and equipment

(i) Owned assets

Items of property, plant and equipment are stated at cost, or at deemed cost, less accumulated depreciation (see below) and impairment losses (see accounting policy l). The cost of self-constructed assets includes the cost of materials, direct labour, and an appropriate proportion of production overheads.

Certain items of property, plant and equipment that had been revalued to fair value on or prior to 1 April 2004, the date of transition to IFRS, are measured on the basis of deemed cost, being the revalued amount at the date of that revaluation.

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

(ii) Leased assets

Leases in terms of which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases.

The Group has no significant finance leases.

(iii) Depreciation

Depreciation is charged to the income statement on a straight line basis to write off the cost less estimated residual value of property, plant and equipment in equal instalments over their estimated useful lives of each part of an item of property plant and equipment as follows:

Freehold land	Nil
Freehold buildings	50 years
Furniture and fittings	10 years
Machinery and other equipment	5 to 10 years
Computer equipment and software	4 years
Vehicles	4 years

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.

(h) Intangible assets

(i) Goodwill

All business combinations are accounted for by applying the purchase method. Goodwill represents amounts arising on acquisition of subsidiaries, associates and joint ventures. In respect of business acquisitions that have occurred since 31 March 2004, goodwill represents the difference between the cost of the acquisition and the fair value of the identifiable net assets acquired.

In respect of acquisitions prior to this date, goodwill is included on the basis of its deemed cost, which represents the amount recorded under previous GAAP. The classification and accounting treatment of business combinations that occurred prior to 31 March 2004 has not been reconsidered in preparing the Group's opening IFRS balance sheet at 31 March 2004.

Goodwill is stated at cost less any accumulated impairment losses. Goodwill is allocated to cash-generating units and is no longer amortised but is tested annually for impairment (see accounting policy l). In respect of associates, the carrying amount of goodwill is included in the carrying amount of the investment in the associate.

(ii) Research and development (R&D)

Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognised in the income statement as an expense as incurred.

Expenditure on development activities, whereby research findings are applied to a plan or design for the production of new or substantially improved products and processes, is capitalised if the product or process is technically and commercially feasible and the Group has sufficient resources to complete development. The expenditure capitalised includes the cost of materials, direct labour and any direct overheads. Capitalised development expenditure is stated at cost less accumulated amortisation (see below) and impairment losses (see accounting policy l). Other development expenditure is recognised in the income statement as an expense as incurred.

Research and development expenditure is accounted for after deducting the relevant proportion of any related grants receivable. If R&D expenditure is recoverable under a customer contract it is carried forward as work in progress at the lower of cost and net realisable value.

(iii) Other intangible assets

Other intangible assets that are acquired by the Group are stated at cost less accumulated amortisation (see below) and impairment losses (see accounting policy l).

(iv) Amortisation

Amortisation of capitalised development expenditure is charged to the income statement on the basis of unit shipments over a product's estimated useful economic life. Amortisation in respect of other intangible assets is charged to the income statement on a straight-line basis over the estimated useful lives of intangible assets unless such lives are indefinite. Goodwill and intangible assets with an indefinite useful life are systematically tested for impairment at each balance sheet date. Other intangible assets are amortised from the date they are available for use.

The estimated useful lives are as follows:	
Capitalised development costs	3 to 5 years
Acquired intangible assets	6 months to 5 years

(i) Trade and other receivables

Trade and other receivables are stated at their amortised cost less impairment losses (see accounting policy l).

(j) Inventories

Inventories are stated at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

Inventories are valued at the lower of cost, including materials, direct labour and an attributable proportion of production overheads based on normal operating capacity, and net realisable value, net of payments on account. Cost includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition. 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 market its products to customers. The majority of demonstration equipment is held within inventory. 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 revenue. Amounts recoverable on contracts are included in debtors and represent revenue 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.

(k) Cash and cash equivalents

Cash and cash equivalents comprises cash balances and fixed short term deposits with an original maturity of less than three months. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

(l) Impairment

The carrying amounts of the Group's assets, other than inventories (see accounting policy j) and deferred tax assets (see accounting policy r), are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated (see (i) below).

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

Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to cash-generating units (group of units) and then, to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

Goodwill was tested for impairment at 1 April 2004, the date of transition to IFRS, even though no indication of impairment existed.

When a decline in the fair value of an available-for-sale financial asset has been recognised directly in equity and there is objective evidence that the asset is impaired, the cumulative loss that had been recognised directly in equity is recognised in profit or loss even though the financial asset has not been derecognised. The amount of the cumulative loss that is recognised in profit or loss is the difference between the acquisition cost and current fair value, less any impairment loss on that financial asset previously recognised in profit or loss.

(i) Calculation of recoverable amount

The recoverable amount of the Group's investments in held-to-maturity securities and receivables carried at amortised cost is calculated as the present value of estimated future cash flows, discounted at the original effective interest rate (i.e. the effective interest rate computed at initial recognition of these financial assets). Receivables with a short duration are not discounted.

The recoverable amount of other assets is the greater of their net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

(ii) Reversals of impairment

An impairment loss in respect of a held-to-maturity security or receivable carried at amortised cost is reversed through the income statement if the subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognised.

An impairment loss in respect of an investment in an equity instrument classified as available for sale is not reversed through the income statement. If the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after an impairment loss was recognised in the income statement, the impairment loss shall be reversed, with the amount of the reversal recognised in the income statement.

An impairment loss in respect of goodwill is not reversed.

In respect of other assets, an impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount.

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

(m) Employee benefits

(i) Defined contribution plans

Obligations for contributions to defined contribution pension plans are recognised as an expense in the income statement as incurred.

(ii) Defined benefit plans

The Group's net obligation in respect of defined benefit pension plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value, and the fair value of any plan assets is deducted. The discount rate is the yield at the balance sheet date on AA credit rated bonds. The calculation is performed by a qualified actuary using the projected unit credit method.

Differences between the actual and expected returns on assets and experience gains and losses arising on scheme liabilities during the year, together with differences arising from changes in assumptions, are recognised in the statement of recognised income and expense in the year.

Contributions to the scheme are paid in accordance with the scheme rules and the recommendation of the actuary. The charge to the income statement reflects the current service cost of such obligations. The expected return on scheme assets and the interest cost on scheme liabilities are included within financial income or financial expenditure in the income statement.

(iii) Share-based payment transactions

The share option programme allows Group employees to acquire shares of the Company. The fair value of options granted is recognised as an employee expense with a corresponding increase in equity. The fair value is measured at grant date and spread over the period during which the employees become unconditionally entitled to the options. The fair value of the options granted is measured using the most appropriate models for each scheme, taking into account the terms and conditions upon which the options were granted. The amount recognised as an expense is adjusted to reflect the actual number of share options that vest except where forfeiture is only due to market performance conditions not being met.

(n) Provisions

A provision is recognised in the balance sheet when the Group has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

(i) Restructuring

A provision for restructuring is recognised when the Group has approved a detailed and formal restructuring plan, and the restructuring has either commenced or has been announced publicly. Future operating costs are not provided for.

(ii) Onerous contracts

A provision for onerous contracts is recognised when the expected benefits to be derived by the Group from a contract are lower than the unavoidable cost of meeting its obligations under the contract.

(o) Trade and other payables

Trade and other payables are stated at amortised cost.

(p) Revenue

(i) Goods sold and services rendered

Revenue is recognised in the income statement when the significant risks and rewards of ownership have been transferred to the buyer.

Revenue, which excludes value added tax and similar revenue based taxes, represents sales to external customers of products and services and is stated before commissions payable to agents. Revenue is recognised on shipment, except for installation, service contracts and long term contracts. Revenue from installation is separately recognised on completion of the installation. Revenue from contracts for maintenance and support is recognised on a pro-rata basis over the contract period.

(ii) 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. Revenue 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.

(iii) Government grants

Government grants are recognised in the balance sheet initially as deferred income when there is reasonable assurance that it will be received and that the Group will comply with the conditions attaching to it. Grants that compensate the Group for expenses incurred are recognised in the income statement on a systematic basis in the same periods in which the expenses are incurred. Grants that compensate the Group for the cost of an asset are recognised in the income statement as other operating income on a systematic basis over the useful life of the asset.

(q) Expenses

(i) Operating lease payments

Payments made under operating leases are recognised in the income statement on a straight-line basis over the term of the lease. Lease incentives received are recognised in the income statement as an integral part of the total lease expense.

(ii) Finance lease payments

Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

(iii) Foreign exchange gains and losses

Foreign exchange gains and losses and gains and losses on hedging instruments that are recognised in the income statement (see accounting policy f) are recognised within administrative expenses and separately disclosed in the notes on the accounts.

(iv) Financial income

Financial income comprises interest receivable on funds invested and dividend income.

Interest income is recognised in the income statement as it accrues, using the effective interest method. Dividend income is recognised in the income statement on the date the entity's right to receive payments is established.

(v) Financial expenditure

Financial expenditure comprises interest payable on borrowings calculated using the effective interest rate method.

The interest expense component of finance lease payments is recognised in the income statement using the effective interest rate method.

(vi) Warranty costs

Warranty costs are based on the historical relationship between actual costs incurred and the relevant revenue exposure.

(r) Income tax

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

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

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Additional income taxes that arise from the distribution of dividends are recognised at the same time as the liability to pay the related dividend.

(s) Segment reporting

A segment is a distinguishable component of the Group that is engaged in providing products or services in a particular business segment (business segment), or in providing products or services within a particular economic environment (geographic segment), which is subject to risks and rewards that are different from those of other segments.

The Group's primary reporting format is business segments and its secondary format is geographical segments. Segment results, assets and liabilities, include items directly attributable to a segment as well as an allocation of central items. Transfer prices between business segments are set on an arms length basis.

(t) Discontinued operations

A discontinued operation is a component of the Group's business that represents a separate major line of business operations.

Classification as a discontinued operation occurs upon disposal or when the operation meets the criteria to be classified as held for sale, if earlier.

(u) Held for sale assets

Immediately before classification as held for sale, the measurement of the assets is brought up-to-date in accordance with applicable IFRS. Then, on initial classification as held for sale, non-current assets are recognised at the lower of carrying amount and fair value less costs to sell.

Impairment losses on initial classification as held for sale are included in profit or loss, even when the asset has previously been revalued. The same applies to gains and losses on subsequent remeasurement.

(v) Adopted IFRS not yet applied

The following adopted IFRSs were available for early application but have not been applied by the Group in these financial statements:

(i) Amendment to IAS 1, Capital Disclosures

(ii) Amendment to IAS 39, Cash Flow Hedge Accounting of Forecast Intragroup Transactions

(iii) Amendments to IAS 39, Financial Instruments: Recognition and Measurement the Fair Value Option

(iv) Amendments to IAS 39, Financial Instruments: Recognition and Measurement

(v) IFRS 4, Insurance contracts

(vi) IFRS 7, Financial Instruments: Disclosures

(vii) IFRIC 4, Determining whether an arrangement contains a lease

(viii) IFRIC 5, Rights to Interest arising from Decommissioning, Restoration and Environmental Rehabilitation Funds incorporating an amendment to IAS 39, Financial Instruments: Recognition and Measurement

The Group does not expect the above amendments to have any significant impact on the financial statements for the period commencing 1 April 2006.

With respect to financial guarantee contracts, where the Group enters into such contracts to guarantee the indebtedness of other companies within the Group, the Group considers these to be insurance arrangements, and accounts for them as such. In this respect the Group treats the guarantee contract as a contingent liability until such time as it becomes probable that the Group will be required to make a payment under the guarantee.

	Notes	Underlying business performance £m	Restructured magnet business £m	**2006 £m**
Revenue	1	153.8	13.4	**167.2**
Cost of sales		(105.3)	(13.8)	**(119.1)**
Gross profit/(loss)		48.5	(0.4)	**48.1**
Selling and marketing costs		(21.3)	(0.5)	**(21.8)**
Administrative expenses	2	(9.5)	(0.7)	**(10.2)**
Research and development	4	(10.8)	(0.9)	**(11.7)**
Trading profit/(loss)		6.9	(2.5)	**4.4**
Other operating income	3	2.0	–	**2.0**
Amortisation of acquired intangibles	16	(0.2)	–	**(0.2)**
Restructuring and other non-recurring costs	5	(0.1)	(6.6)	**(6.7)**
Operating profit/(loss)		8.6	(9.1)	**(0.5)**
Financial income	9			**8.1**
Financial expenditure	10			**(8.5)**
(Loss)/profit before income tax and discontinued operations				**(0.9)**
Income tax expense	11			**(2.5)**
Loss after taxation before discontinued operations				**(3.4)**
Profit from discontinued operations after tax	1			**–**
(Loss)/profit for the period attributable to equity shareholders of the Parent Company				**(3.4)**

	Notes		**pence**
Earnings per share – continuing	12		
Basic earnings per share			**(7.2)**
Diluted earnings per share			**(7.1)**

	Notes		
Dividends per share			
Dividends paid	13		**6.0**
Dividends proposed	13		**8.4**

	Notes		**£m**
Total dividends			
Dividends paid	13		**2.9**
Dividends proposed	13		**4.0**

	Notes	Underlying business performance £m	Restructured magnet business £m	2005 £m
Revenue	1	135.6	19.2	154.8
Cost of sales		(93.1)	(17.3)	(110.4)
Gross profit/(loss)		42.5	1.9	44.4
Selling and marketing costs		(19.2)	(0.3)	(19.5)
Administrative expenses	2	(5.0)	(1.0)	(6.0)
Research and development	4	(9.2)	(2.3)	(11.5)
Trading profit/(loss)		9.1	(1.7)	7.4
Other operating income	3	0.2	–	0.2
Amortisation of acquired intangibles	16	(1.3)	–	(1.3)
Restructuring and other non-recurring costs	5	(6.2)	–	(6.2)
Operating profit/(loss)		1.8	(1.7)	0.1
Financial income	9			5.3
Financial expenditure	10			(5.3)
(Loss)/profit before income tax and discontinued operations				0.1
Income tax expense	11			(1.7)
Loss after taxation before discontinued operations				(1.6)
Profit from discontinued operations after tax				7.2
(Loss)/profit for the period attributable to equity shareholders of the Parent Company				5.6

	Notes		pence
Earnings per share – continuing	12		
Basic earnings per share			(3.0)
Diluted earnings per share			(3.1)

	Notes		
Dividends per share			
Dividends paid	13		33.4
Dividends proposed	13		33.4

	Notes		£m
Total dividends			
Dividends paid	13		15.7
Dividends proposed	13		15.8

	2006 £m	2005 £m
Foreign exchange translation differences	**0.9**	–
Cash flow hedges – effective portion	**(0.3)**	–
Deferred tax on the above	**0.1**	–
Actuarial loss in respect of post retirement benefits	**(10.3)**	(6.1)
Deferred tax on the above	**3.1**	1.9
Impairment of carrying value of investment	**(0.2)**	–
Net loss recognised directly in equity	**(6.7)**	(4.2)
(Loss)/profit for the period	**(3.4)**	5.6
Total recognised (expense)/income for the year – attributable to equity holders of the Parent Company	**(10.1)**	1.4

Total recognised (expense)/income for the year	**(10.1)**	1.4
Effect of adoption of IAS 32 and IAS 39, net of tax on 1 April 2005 (2005 not restated) – cash flow hedges	**0.2**	–
	(9.9)	1.4

	Notes	2006 £m	2005 £m
Assets			
Non-current assets			
Property, plant and equipment	15	**23.4**	23.0
Intangible assets	16	**15.6**	12.5
Investments	17	**1.0**	1.6
Deferred income tax assets	18	**19.1**	15.1
		59.1	52.2
Current assets			
Inventories	19	**27.1**	23.9
Trade and other receivables	20	**46.2**	46.8
Derivative financial instruments	21	**0.1**	–
Cash and cash equivalents	22	**13.9**	29.7
Held for sale assets	23	**5.0**	5.4
		92.3	105.8
Total assets		**151.4**	158.0

	Notes	2006 £m	2005 £m
Equity			
Capital and reserves attributable to the Company's equity holders			
Share capital	24	**2.4**	2.4
Share premium	24	**20.2**	19.4
Other reserves	24	**16.0**	16.0
Translation reserve	24	**0.9**	–
Retained earnings	24	**6.9**	20.2
		46.4	58.0
Liabilities			
Non-current liabilities			
Borrowings	26	**0.5**	1.1
Retirement benefit obligations	27	**53.4**	43.3
		53.9	44.4
Current liabilities			
Borrowings	26	**2.9**	2.1
Bank overdrafts	22	**1.2**	1.1
Trade and other payables	28	**38.7**	44.3
Current income tax liabilities		**1.9**	1.3
Derivative financial instruments	21	**0.3**	–
Provisions	29	**6.1**	6.8
		51.1	55.6
Total liabilities		**105.0**	100.0
Total liabilities and equity		**151.4**	158.0

The financial statements were approved by the Board of Directors on 13 June 2006 and signed on its behalf by:

Jonathan Flint
Director

Martin Lamaison
Director

	Notes	2006 £m	2005 £m
Cash flows from operating activities			
Cash receipts from customers		**169.2**	185.9
Cash paid to suppliers and employees		**(173.9)**	(177.3)
Cash (absorbed by)/generated from operations		**(4.7)**	8.6
Interest paid		**(0.6)**	(0.2)
Income taxes paid		**(2.7)**	(2.2)
Net cash from operating activities		**(8.0)**	6.2
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment		**–**	0.8
Proceeds from sale of held for sale assets		**0.6**	–
Proceeds from sale of investment		**2.2**	–
Interest received		**0.9**	0.7
Disposal of subsidiary, net of cash disposed		**–**	24.0
Acquisition of subsidiaries, net of cash acquired	14	**(3.9)**	(5.8)
Acquisition of property, plant and equipment	15	**(4.2)**	(3.2)
Capitalised development expenditure	4	**(2.6)**	(1.5)
Net cash from investing activities		**(7.0)**	15.0
Cash flows from financing activities			
Proceeds from issue of share capital		**0.8**	0.4
Proceeds from the disposal of own shares		**0.1**	–
Proceeds from increase in short term borrowings		**0.8**	0.6
Dividends paid		**(2.9)**	(15.7)
Net cash from financing activities		**(1.2)**	(14.7)
Net (decrease)/increase in cash equivalents		**(16.2)**	6.5
Cash and cash equivalents at beginning of the period		**28.6**	22.3
Revaluation of cash balances on adoption of IAS 32 and IAS 39		**(0.1)**	–
Effect of exchange rate fluctuations on cash held		**0.4**	(0.2)
Cash and cash equivalents at end of the period	22	**12.7**	28.6

1 SEGMENT INFORMATION – ANALYSIS BY BUSINESS

Segment results include items directly attributable to a segment as well as those which can be allocated on a reasonable basis.

a) Total – Year to 31 March 2006

	Analytical £m	Superconductivity £m	**Total £m**
Revenue	80.7	86.5	**167.2**
Trading profit/(loss)	6.0	(1.6)	**4.4**
Other operating income	0.9	1.1	**2.0**
Amortisation of acquired intangibles	(0.1)	(0.1)	**(0.2)**
Restructuring and other non-recurring costs	(0.1)	(6.6)	**(6.7)**
Operating profit/(loss)	6.7	(7.2)	**(0.5)**
Net financing expense			**(0.4)**
Income tax expense			**(2.5)**
Loss for the period			**(3.4)**
Segment assets	55.6	55.9	**111.5**
Unallocated assets			**39.9**
Total assets			**151.4**
Segment liabilities	21.7	22.2	**43.9**
Unallocated liabilities			**61.1**
Total liabilities			**105.0**
Depreciation charge	1.8	2.2	**4.0**
Amortisation charge	1.0	0.3	**1.3**
Other significant non-cash expenses – end of line inventory write down	–	3.7	**3.7**
Capital expenditure, including capitalised research and development	4.6	2.2	**6.8**
Impairment losses	–	–	**–**

1 SEGMENT INFORMATION – ANALYSIS BY BUSINESS continued

a) Total – Year to 31 March 2005

	Analytical £m	Superconductivity £m	Total £m
Revenue	68.8	86.0	154.8
Trading profit	6.4	1.0	7.4
Other operating income	–	0.2	0.2
Amortisation of acquired intangibles	(1.2)	(0.1)	(1.3)
Restructuring and other non-recurring costs	(2.7)	(3.5)	(6.2)
Operating profit/(loss)	2.5	(2.4)	0.1
Net financing expense			–
Income tax expense			(1.7)
Loss for the period before discontinued operations			(1.6)
Profit from discontinued operations			7.2
Profit for the period			5.6
Segment assets	46.0	59.9	105.9
Unallocated assets			52.1
Total assets			158.0
Segment liabilities	19.1	28.1	47.2
Unallocated liabilities			52.8
Total liabilities			100.0
Depreciation charge	1.7	2.0	3.7
Amortisation charge	2.3	0.2	2.5
Other significant non-cash expenses – impairment of held for sale assets	0.5	–	0.5
Capital expenditure, including capitalised research and development	3.0	1.2	4.2
Impairment losses	0.7	–	0.7

Discontinued operations

The results of the Medical business segment prior to its disposal on 1 March 2005 were as follows:

	2005 £m
Revenue	25.6
Trading profit	–
Net finance expense	(0.2)
Profit on sale of business	8.1
Profit before tax	7.9
Income tax expense (including tax on profit of disposal of £0.6m)	(0.7)
Profit for the period from discontinued operations	7.2
Depreciation charge	0.4
Amortisation charge	0.2
Capital expenditure, including capitalised research and development	0.5
Impairment losses	–

	pence
Basic earnings per share – discontinued operations	15.2
Diluted earnings per share – discontinued operations	15.1

1 SEGMENT INFORMATION – ANALYSIS BY BUSINESS continued

a) Total – Year to 31 March 2005 continued

During the year ended 31 March 2005 the Medical business had a cash inflow from operating activities of £0.2m and a cash inflow of £23.5m from investing activities, including the proceeds of disposal.

b) Underlying business performance

The underlying business comprises all of the Group's operations except the restructured magnet business. The restructured magnet business does not constitute a discontinued business within the meaning of IFRS. Disclosure of segmental information for the underlying business is not required by IFRS but certain limited information is included below to give shareholders greater insight into the performance of the Group. Information relating to the restructured magnet business is not included.

Year to 31 March 2006

	Analytical £m	Superconductivity excluding restructured magnet business £m	**Total £m**
Revenue	80.7	73.1	**153.8**
Trading profit	6.0	0.9	**6.9**
Other operating income	0.9	1.1	**2.0**
Amortisation of acquired intangibles	(0.1)	(0.1)	**(0.2)**
Restructuring and other non-recurring costs	(0.1)	–	**(0.1)**
Operating profit	6.7	1.9	**8.6**

Year to 31 March 2005

	Analytical £m	Superconductivity excluding restructured magnet business £m	Total £m
Revenue	68.8	66.8	135.6
Trading profit	6.4	2.7	9.1
Other operating income	–	0.2	0.2
Amortisation of acquired intangibles	(1.2)	(0.1)	(1.3)
Restructuring and other non-recurring costs	(2.7)	(3.5)	(6.2)
Operating profit/(loss)	2.5	(0.7)	1.8

c) Geographical Analysis

Year to 31 March 2006

	UK £m	Continental Europe £m	North America £m	Japan £m	Rest of Far East £m	Rest of World £m	**Total £m**
Revenue from external customers	18.8	29.2	59.9	34.8	19.9	4.6	**167.2**
Segment assets	60.3	12.7	31.1	6.9	0.5	–	**111.5**
Unallocated assets							**39.9**
							151.4
Capital expenditure	4.2	0.8	1.7	0.1	–	–	**6.8**

Year to 31 March 2005

	UK £m	Continental Europe £m	North America £m	Japan £m	Rest of Far East £m	Rest of World £m	Total £m
Revenue from external customers	17.7	25.0	57.9	34.0	17.7	2.5	154.8
Segment assets	61.7	9.5	26.2	8.4	0.1	–	105.9
Unallocated assets							52.1
							158.0
Capital expenditure	2.1	0.8	1.2	0.1	–	–	4.2

2 ADMINISTRATIVE EXPENSES

	2006 £m	2005 £m
Administrative expenses	**10.1**	7.7
Foreign exchange loss/(gain)	**0.1**	(1.7)
	10.2	6.0

Fees paid to auditor and its associates:		
Services as auditors	**0.2**	0.2
Non-audit service	**–**	0.4
Total fees paid to auditor and its associates	**0.2**	0.6

Fees paid to the auditor and its associates in respect of non-audit services totalled £40,000 (2005 £391,000). This comprised IFRS advisory work of £28,000 (2005 £12,000) and tax and other services of £12,000 (2005 £20,000). Additionally during 2005 KPMG Corporate Finance were paid £325,000 in connection with the disposal of the Group's Medical business and KPMG Audit Plc were paid £23,000 and £11,000 in respect of vendor due diligence and other audit services respectively.

3 OTHER OPERATING INCOME

	2006 £m	2005 £m
Profit on disposal of investments	**1.8**	–
Profit on disposal of property	**0.2**	0.2
	2.0	0.2

Profit on disposal of investments comprises a profit of £1.7m on the disposal of the Group's entire holdings in Target Systemelectronic GmbH and Target Instruments Inc and a profit of £0.1m in a part disposal of the Group's interest in ARKeX Limited (see Note 17).

4 RESEARCH AND DEVELOPMENT

The total research and development spend by the group is as follows:

	Analytical £m	Superconductivity excluding restructured magnet business £m	Underlying business Total £m	Restructured magnet business £m	**2006 Total £m**
Total cash spent on research and development during the year	7.4	4.9	12.3	0.9	**13.2**
Less: amount capitalised	(2.4)	(0.2)	(2.6)	–	**(2.6)**
Add: amortisation of amounts previously capitalised	0.9	0.2	1.1	–	**1.1**
Research and development charged to income statement	5.9	4.9	10.8	0.9	**11.7**

	Analytical £m	Superconductivity excluding restructured magnet business £m	Underlying business Total £m	Restructured magnet business £m	2005 Total £m
Total cash spent on research and development during the year	5.1	3.9	9.0	2.3	11.3
Less: amount capitalised	(1.2)	–	(1.2)	–	(1.2)
Add: amortisation of amounts previously capitalised	1.3	0.1	1.4	–	1.4
Research and development charged to income statement	5.2	4.0	9.2	2.3	11.5

5 RESTRUCTURING AND OTHER NON-RECURRING COSTS

	2006 £m	2005 £m
Post acquisition restructuring	**–**	1.2
Wire quality costs	**–**	1.5
Restructuring costs	**6.7**	3.0
Impairment of held for sale assets	**–**	0.5
	6.7	6.2

Restructuring costs for the year ended 31 March 2006 relate to the restructuring of the UK magnet business and restructuring at Plasma Technology in Yatton, Bristol. The cost comprises inventory write-downs of £3.7m, redundancy and similar costs of £1.0m, halted research and development costs of £0.8m, supplier commitments of £0.7m and other costs of £0.5m.

Restructuring and other non-recurring costs for the year ended 31 March 2005 comprise restructuring costs (redundancy expense, inventory write-off and surplus lease costs) following the acquisition of Metorex International Oy and Resonance Instruments Limited in September 2004, costs relating to a specific quality issue at the US superconducting wire manufacturing plant, restructuring costs relating to redundancies in the Superconductivity business, closure of the East Grinstead site and the replacement of the Chief Executive and impairment of the held for sale property in Abingdon (see Note 23).

6 PERSONNEL COSTS

	2006 £m	Continuing £m	Discontinued £m	2005 Total £m
Wages and salaries	**42.2**	40.8	7.3	48.1
Social security costs	**3.9**	3.9	1.0	4.9
Charge in respect of defined benefit pension scheme	**2.9**	2.5	0.5	3.0
Contributions to defined contribution pension plans	**1.1**	0.6	0.1	0.7
Charge in respect of employee share options	**0.3**	0.2	–	0.2
	50.4	48.0	8.9	56.9

Directors' emoluments are disclosed in the Directors' Remuneration Report on pages 32 to 37 of this document.

7 EMPLOYEES

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

	2006	Continuing	Discontinued	2005 Total
Production	**780**	748	61	809
Sales and marketing	**260**	227	127	354
Research and development	**202**	185	22	207
Administration	**170**	165	46	211
Total average number of employees	**1,412**	1,325	256	1,581

8 SHARE OPTION SCHEME EXPENSE

Administrative expenses include a charge of £0.3m (2005 £0.2m) in respect of the cost of providing share options. The cost is calculated by estimating the fair value of the option at grant and spreading that amount over the vesting period. Further details of the assumptions used in these calculations are given below.

The terms and conditions of all awards and grants made since 7 November 2002 are as follows:

Grant date	Plan	Employees entitled	Number of instruments granted	Vesting conditions	Contractual life of option
December 2005	Senior Executive Long Term Incentive Scheme	Certain senior executives	40,000	Three years of service plus satisfaction of performance conditions	7 years
December 2005	Executive Share Option Scheme	Certain senior executives	6,000	Three years of service plus satisfaction of performance conditions	10 years
December 2005	UK Save as You Earn scheme 20	All UK employees	156,881	Three or five years of service	3.5 or 5.5 years
July 2005	Senior Executive Long Term Incentive Scheme	Certain senior executives	50,000	Three years of service plus satisfaction of performance conditions	7 years
July 2005	Executive Share Option Scheme	Certain senior executives	540,300	Three years of service plus satisfaction of performance conditions	10 years
December 2004	UK Save as You Earn scheme 19	All UK employees	221,749	Three or five years of service	3.5 or 5.5 years
July 2004	Executive Share Option Scheme	Certain senior executives	786,213	Three years of service plus satisfaction of performance conditions	10 years
December 2003	UK Save as You Earn scheme 18	All UK employees	227,157	Three or five years of service	3.5 or 5.5 years
July 2003	Executive Share Option Scheme	Certain senior executives	932,037	Three years of service plus satisfaction of performance conditions	10 years
December 2002	Executive Share Option Scheme	Certain senior executives	60,000	Three years of service plus satisfaction of performance conditions	10 years
December 2002	UK Save as You Earn scheme 17	All UK employees	120,552	Three or five years of service	3.5 or 5.5 years

All awards and option exercises are settled by physical delivery of shares. Full details of the performance conditions can be found in the Directors' Remuneration Report on pages 32 to 37.

Fair value of share options and assumptions are set out below:

Executive Share Option Scheme

	December 2005	July 2005	July 2004	July 2003	December 2002
Fair value at measurement date	64.0p	56.5p	64.5p	47.5p	31.5p
Share price	£2.42¼	£2.17½	£2.18½	£1.87½	£1.47½
Exercise price	£2.42½	£2.19	£2.18	£1.88	£1.48
Expected volatility	37.3%	38.4%	41.9%	41.7%	40.4%
Expected option life (expressed as weighted average life used in the modelling)	6 years	6 years	6 years	6 years	6 years
Expected dividend yield	3.5%	3.9%	3.8%	4.5%	5.7%
Risk free interest rate	4.3%	4.2%	5.1%	3.9%	4.4%
Performance condition discount in respect of TSR condition	24.2%	23.0%	21.0%	26.0%	31.0%

8 SHARE OPTION SCHEME EXPENSE continued

Senior Executive Long Term Incentive Scheme

	December 2005	July 2005
Fair value at measurement date	£1.62	£1.46
Share price	£2.42¼	£2.17½
Exercise price	£nil	£nil
Expected volatility	32.2%	34.8%
Expected option life (expressed as weighted average life used in the modelling)	3 years	3 years
Expected dividend yield	3.5%	3.9%
Risk free interest rate	4.3%	4.2%
Performance condition discount in respect of TSR condition	51.5%	23.0%

UK Save as You Earn scheme – 3 year

	December 2005	December 2004	December 2003	December 2002
Fair value at measurement date	65.0p	63.0p	55.0p	37.0p
Share price	£2.44	£2.14	£1.95	£1.47½
Exercise price	£2.14	£1.75	£1.74	£1.35
Expected volatility	33.3%	35.0%	40.1%	41.6%
Expected option life (expressed as weighted average life used in the modelling)	3.25 years	3.25 years	3.25 years	3.25 years
Expected dividend yield	3.4%	3.9%	4.3%	5.7%
Risk free interest rate	4.3%	4.4%	4.5%	4.1%

UK Save as You Earn scheme – 5 year

	December 2005	December 2004	December 2003	December 2002
Fair value at measurement date	79.0p	78.0p	69.0p	43.0p
Share price	£2.44	£2.14	£1.95	£1.47½
Exercise price	£2.02	£1.65	£1.64	£1.27
Expected volatility	34.2%	39.8%	43.7%	41.5%
Expected option life (expressed as weighted average life used in the modelling)	5.25 years	5.25 years	5.25 years	5.25 years
Expected dividend yield	3.4%	3.9%	4.3%	5.7%
Risk free interest rate	4.2%	4.4%	4.7%	4.3%

In all cases expected volatility has been based on historical volatility over a period of time of the same length as the expected option life and ending on the grant date. The volatility has been used to incorporate a discount for TSR market condition in the ESO and SELTIS schemes.

The Executive Share Option and Senior Executive Long Term Incentive Schemes have been valued using a Monte-Carlo stochastic model. The Save as You Earn schemes have been valued using a modified Black-Scholes model.

The number and weighted average exercise prices of share options are as follows:

	Weighted average exercise price 2006	**Number of options 2006**	Weighted average exercise price 2005	Number of options 2005
Outstanding at the beginning of the period	**£1.89**	**4,321,458**	£1.77	4,509,512
Granted during the period	**£1.92**	**793,181**	£2.07	1,007,962
Forfeited during the period	**£1.75**	**(57,273)**	£1.80	(74,098)
Exercised during the period	**£1.44**	**(596,351)**	£1.48	(236,236)
Lapsed during the period	**£2.26**	**(1,171,415)**	£1.58	(885,682)
Outstanding at the period end	**£1.85**	**3,289,600**	£1.89	4,321,458
Exercisable at the period end	**£1.38**	**636,787**	£1.67	1,158,227

9 FINANCIAL INCOME

	2006 £m	2005 £m
Interest receivable	**0.9**	0.7
Expected return on pension scheme assets	**7.2**	4.6
	8.1	5.3

10 FINANCIAL EXPENDITURE

	2006 £m	2005 £m
Interest payable and similar charges on bank loans and overdrafts	**0.6**	0.2
Interest charge on pension scheme liabilities	**7.9**	5.1
Total interest payable	**8.5**	5.3

11 INCOME TAX EXPENSE

Recognised in the income statement

	% of (loss)/profit before tax	2006 £m	% of (loss)/profit before tax	2005 £m
Current tax expense				
Current year		**2.4**		1.1
Adjustment for prior years		**0.1**		0.1
		2.5		1.2
Deferred tax expense				
Origination and reversal of temporary differences		**(0.8)**		0.9
Adjustment in respect of prior periods		**–**		0.3
Benefit of tax losses recognised		**0.8**		–
		–		1.2
Total tax expense		**2.5**		2.4
Less tax charge included within discontinued operations		**–**		(0.7)
Total income tax expense in income statement		**2.5**		1.7
Reconciliation of effective tax rate				
(Loss)/profit before tax (including discontinued operations)		**(0.9)**		8.0
Income tax using the UK corporation tax rate	30	**(0.3)**	30	2.4
Effect of:				
Tax rates in foreign jurisdictions	(56)	**0.5**	5	0.4
Amortisation of intangible assets	(11)	**0.1**	4	0.3
Non-tax deductible expenses	(11)	**0.1**	6	0.5
Tax incentives not recognised in the income statement – mainly US manufacturing deductions	44	**(0.4)**	(7)	(0.5)
Profit on disposal of Medical business	–	**–**	(29)	(2.3)
Temporary differences not recognised for deferred tax	(167)	**1.5**	8	0.6
Effect of current tax losses not utilised	(185)	**1.7**	9	0.7
Effect of previous tax losses now utilised	89	**(0.8)**	(1)	(0.1)
Under/(over) provided in prior years	(11)	**0.1**	5	0.4
Total tax expense	(278)	**2.5**	30	2.4
Deferred tax recognised directly in equity				
Relating to employee benefits		**3.1**		1.9
Relating to cash flow hedges		**(0.1)**		–
		3.0		1.9

12 EARNINGS PER SHARE

a) Continuing

The calculation of continuing basic earnings per share is based on the loss for the period after taxation but before discontinued operations and a weighted average number of ordinary shares outstanding during the period, excluding shares held by the Employee Share Ownership Trust, as follows:

	2006 £m	2005 £m
Loss for the period	**(3.4)**	(1.6)

	Shares million	Shares million
Weighted average number of shares outstanding	**48.6**	48.1
Less shares held by Employee Share Ownership Trust	**(0.9)**	(1.0)
Weighted average number of shares used in calculation of earnings per share	**47.7**	47.1

b) Total

Total earnings per share based on the profit for the period as disclosed in the Income Statement are as follows:

	2006 pence	2005 pence
Basic earnings per share	**(7.2)**	12.2
Diluted earnings per share	**(7.1)**	12.0

c) Diluted

Diluted earnings per share have been calculated using the same numerators as set out in (a) and (b) above and by reference to the following number of shares:

	2006 Shares million	2005 Shares million
Number of ordinary shares per basic earnings per share calculations	**47.7**	47.1
Effect of shares under option	**0.5**	0.5
Number of ordinary shares per diluted earnings per share calculations	**48.2**	47.6

d) Adjusted

The earnings per share before other operating income, amortisation of acquired intangibles, restructuring and other non-recurring costs, the result of the restructured magnet business and discontinued operations are as follows:

	2006 pence	2005 pence
Basic	**9.1**	13.9
Diluted	**9.0**	13.8

A reconciliation of the profit for the periods used to calculate basic earnings per share to the adjusted profit used to calculate the adjusted earnings per share shown above is set out below:

	2006 £m	2005 £m
(Loss)/profit for the period	**(3.4)**	5.6
Other operating income	**(2.0)**	(0.2)
Amortisation of acquired intangible assets	**0.2**	1.3
Restructuring and other non-recurring costs	**6.7**	6.2
Tax impact of the above	**0.3**	(0.8)
Loss of restructured magnet business	**2.5**	1.7
Profit after tax in respect of discontinued operations	**–**	(7.2)
Adjusted profit	**4.3**	6.6

13 DIVIDENDS PER SHARE

The following dividends per share were paid by the Group:

	2006 pence	2005 pence
Previous period final dividend	**6.0**	6.0
Current period interim dividend	**–**	2.4
Special dividend	**–**	25.0
	6.0	33.4

The following dividends per share were proposed by the Group in respect of each accounting period presented:

	2006 pence	2005 pence
Interim dividend	**2.4**	2.4
Special dividend	**–**	25.0
Final dividend	**6.0**	6.0
	8.4	33.4

Subject to the approval of the shareholders at the Annual General Meeting on 26 September 2006, the proposed final dividend will be paid on 27 October 2006 to shareholders registered at the close of business on 29 September 2006. The ordinary shares will be quoted ex-dividend on 27 September 2006. The dividends payable on the shares held in trust have been waived.

14 ACQUISITIONS

HKL Technologies A/S

On 4 April 2005 the Group acquired HKL Technologies A/S based in Hobro, Denmark for a net cash consideration of £2.1m. Further consideration of up to £0.7m is payable based on post acquisition revenue growth. The Group's best estimate of this deferred consideration at the current time is £0.3m. HKL contributed turnover of £1.8m and profit before income tax of £0.1m to the Group in the period.

	Book value £m	Fair value adjustments £m	Fair value to the Group £m
Property, plant and equipment	0.2	(0.1)	0.1
Inventories	0.3	(0.1)	0.2
Receivables	0.6	–	0.6
Payables	(0.7)	–	(0.7)
Total net assets/(liabilities)	0.4	(0.2)	0.2
Goodwill			2.2
Total purchase cost			2.4
Less consideration deferred			(0.3)
Net cash outflow in respect of the purchase *			2.1
Less net cash acquired			–
Net cash outflow on acquisition			2.1

* Includes costs associated with the acquisition of £0.1m.

The book value of the assets acquired are based on the management accounts at the date of acquisition. The fair value adjustments reflect the alignment of accounting policies in respect of stock provisioning and project based contracts.

Goodwill arose on the above acquisition as the criteria for the recognition of any intangible assets are not met at the date of acquisition. It is recorded as a component of intangible assets.

14 ACQUISITIONS continued

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 total cash consideration was £5.3m of which £4.9m had been paid at 31 March 2006 and the remaining £0.4m is payable in June 2006.

	Book value £m	Fair value adjustments £m	Accounting policy adjustments £m	Fair value to the Group £m
Intangible assets	–	1.4	–	1.4
Property, plant and equipment	0.1	–	–	0.1
Inventories	1.4	–	(0.6)	0.8
Debtors	1.4	–	–	1.4
Creditors	(1.6)	–	(0.1)	(1.7)
Provisions	(0.1)	–	–	(0.1)
Total net assets/(liabilities)	1.2	1.4	(0.7)	1.9
Goodwill				3.4
Total purchase cost				5.3

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 inventory provisioning and project based contracts. The fair value adjustments relate to recognition of certain customer related intangible assets not previously recognised by the company.

Goodwill arose on the above acquisition because the criteria for the recognition of certain other technology, customer and market related intangible assets were not met at the date of acquisition. It is recorded as a component of intangible assets.

Resonance Instruments Limited

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

	Book value £m	Fair value adjustments £m	Fair value to the Group £m
Intangible assets	–	0.5	0.5
Property, plant and equipment	0.1	–	0.1
Inventories	0.4	–	0.4
Debtors	0.5	–	0.5
Creditors	(0.5)	–	(0.5)
Provisions	(0.1)	–	(0.1)
Total net assets	0.4	0.5	0.9
Goodwill			2.2
Total purchase cost			3.1

The book value of the assets acquired are based on the management accounts at the date of acquisition. The fair value adjustments relate to recognition of certain customer related assets not previously recognised by the company.

Goodwill arose on the above acquisition because the criteria for the recognition of certain other technology, customer and market related assets were not met at the date of acquisition. It is recorded as a component of intangible assets.

15 PROPERTY, PLANT AND EQUIPMENT

	Land and buildings £m	Plant and equipment £m	Fixtures and fittings £m	Total £m
Cost				
Balance at 1 April 2004	19.2	33.6	9.0	61.8
Acquisitions through business combinations	–	0.2	–	0.2
Other acquisitions	0.1	3.1	–	3.2
Disposals	(0.6)	(1.5)	(0.3)	(2.4)
Disposal of business	(2.0)	(5.7)	(1.2)	(8.9)
Effect of movements in foreign exchange	(0.1)	(0.2)	–	(0.3)
Balance at 31 March 2005	16.6	29.5	7.5	53.6
Balance at 1 April 2005	16.6	29.5	7.5	53.6
Acquisitions through business combinations	–	0.1	–	0.1
Other acquisitions	0.2	3.9	0.1	4.2
Disposals	(0.1)	(1.9)	(0.1)	(2.1)
Effect of movements in foreign exchange	0.2	0.8	0.1	1.1
Balance at 31 March 2006	**16.9**	**32.4**	**7.6**	**56.9**
Depreciation and impairment losses				
Balance at 1 April 2004	4.0	26.2	4.9	35.1
Depreciation charge for the year	0.4	2.9	0.8	4.1
Disposals	(0.2)	(1.2)	(0.3)	(1.7)
Disposal of business	(0.8)	(5.1)	(0.7)	(6.6)
Effect of movements in foreign exchange	(0.1)	(0.2)	–	(0.3)
Balance at 31 March 2005	3.3	22.6	4.7	30.6
Balance at 1 April 2005	3.3	22.6	4.7	30.6
Depreciation charge for the year	0.3	2.9	0.8	4.0
Disposals	(0.1)	(1.7)	–	(1.8)
Effect of movements in foreign exchange	0.2	0.5	–	0.7
Balance at 31 March 2006	**3.7**	**24.3**	**5.5**	**33.5**
Carrying amounts				
At 1 April 2004	15.2	7.4	4.1	26.7
At 31 March 2005	13.3	6.9	2.8	23.0
At 31 March 2006	**13.2**	**8.1**	**2.1**	**23.4**

16 INTANGIBLE ASSETS

	Goodwill £m	Customer related acquired intangibles £m	Development costs £m	Total £m
Cost				
Balance at 1 April 2004	2.2	–	5.6	7.8
Acquisitions through business combinations	5.6	1.9	–	7.5
Other acquisitions	–	–	1.5	1.5
Disposals	–	–	(1.7)	(1.7)
Effect of movements in foreign exchange	0.1	–	–	0.1
Balance at 31 March 2005	7.9	1.9	5.4	15.2
Balance at 1 April 2005	7.9	1.9	5.4	15.2
Acquisitions through business combinations	2.2	–	–	2.2
Adjustment relating to recognition of deferred tax asset	(0.8)	–	–	(0.8)
Other acquisitions – internally developed	–	–	2.6	2.6
Effect of movements in foreign exchange	0.3	0.1	–	0.4
Balance at 31 March 2006	**9.6**	**2.0**	**8.0**	**19.6**
Amortisation and impairment losses				
Balance at 1 April 2004	–	–	0.9	0.9
Amortisation charge for the year	–	1.1	1.6	2.7
Impairment	0.2	–	–	0.2
Disposals	–	–	(1.1)	(1.1)
Effect of movements in foreign exchange	–	–	–	–
Balance at 31 March 2005	0.2	1.1	1.4	2.7
Balance at 1 April 2005	0.2	1.1	1.4	2.7
Amortisation for the year	–	–	1.1	1.1
Impairment charge	–	0.2	–	0.2
Effect of movements in foreign exchange	–	–	–	–
Balance at 31 March 2006	**0.2**	**1.3**	**2.5**	**4.0**
Carrying amounts				
At 1 April 2004	2.2	–	4.7	6.9
At 31 March 2005	7.7	0.8	4.0	12.5
At 31 March 2006	**9.4**	**0.7**	**5.5**	**15.6**

Impairment tests for cash-generating units containing goodwill

The following units have significant carrying amounts of goodwill:

	2006 £m	2005 £m
Analytical	**5.6**	4.0
Superconductivity	**3.8**	3.7
	9.4	7.7

The recoverable amount of the above units is based on value in use calculations. Those calculations use cash flow projections based on forecast operating results for the current period and budgeted operating results for the subsequent four year period. A pre-tax discount rate of 10% has been used in discounting the projected cash flows.

During 2005 certain goodwill in the Analytical business was impaired since it related to an activity which had ceased.

17 INVESTMENTS

	2006 £m	2005 £m
Equity securities available for sale	**1.0**	1.6

Other investments at 31 March 2006 comprise:

Investment	Principal activity	Percentage of company owned	Carrying value £m
ARKeX Limited	Supply of gravity-gradiometry exploration and related services to the oil, gas and minerals industries	18.9%	0.3
Link Nordiska AB	Scandinavian distributor of Oxford Instruments Microanalysis X-ray systems for chemical elemental analysis	10.0%	–
Oxford BioSignals Limited	Advanced signal processing and neural network technology delivering advanced health monitoring solutions to medical and engineering markets	7.0%	0.4
Oxford Diffraction Limited	X-ray diffraction systems and ancillary products for chemical crystallography and protein structure determination	23.0%	0.3

The Group considers that ARKeX Limited and Oxford Diffraction Limited are not associates because in both cases the Group is unable to exert significant influence over their financial and operating policies due to the dominant influence exerted by other investors.

The investments are unlisted and engaged in the development of new high technology products. Due to the inherent uncertainties this creates, the Group considers that it is not possible to reliably estimate the fair value of these investments.

During the year the Group sold its investments in Target Systemelectronic GmbH and Target Instruments Incorporated. The carrying value at the time of sale was £0.4m and the profit on disposal was £1.7m.

During the year the Group reduced its percentage holding in ARKeX Limited by 3.6% from 28.5% to 24.9%. The gain on disposal was £0.1m. Additional "B" round funding during the year resulted in the Group's percentage holding being reduced to 18.9%.

18 DEFERRED TAX ASSET

Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
	2006 £m	2005 £m	**2006 £m**	2005 £m	**2006 £m**	2005 £m
Property, plant and equipment	**1.9**	1.7	**(0.3)**	(0.3)	**1.6**	1.4
Deferred revenue	**0.4**	0.5	**–**	(0.2)	**0.4**	0.3
Inventories	**1.5**	1.0	**–**	–	**1.5**	1.0
Employee benefits	**16.5**	13.1	**–**	–	**16.5**	13.1
Provisions	**0.4**	0.2	**–**	–	**0.4**	0.2
Intangible assets	**–**	0.2	**(1.3)**	(1.4)	**(1.3)**	(1.2)
Other items	**–**	0.2	**(0.1)**	–	**(0.1)**	0.2
Tax value of loss carry-forwards recognised	**0.1**	0.1	**–**	–	**0.1**	0.1
Tax assets/(liabilities)	**20.8**	17.0	**(1.7)**	(1.9)	**19.1**	15.1
Set off of tax	**(1.7)**	(1.9)	**1.7**	1.9	**–**	–
Net tax assets/(liabilities)	**19.1**	15.1	**–**	–	**19.1**	15.1

18 DEFERRED TAX ASSET continued

Unrecognised deferred tax assets

Deferred tax assets have not been recognised in respect of the following items:

	2006 £m	2005 £m
Deductible temporary differences	**1.7**	1.0
Tax losses	**7.3**	6.6
	9.0	7.6

£1.5m of the tax losses expire between now and 2015. The balance do not expire under current tax legislation. The deductible temporary differences relate to plant and machinery and other short-term items and do not expire under current tax legislation. Deferred tax assets have not been recognised in respect of these items because it is not certain that future taxable profit will be available against which the Group can utilise the benefits there from.

Movement in temporary differences during the year

	Balance 1 April 2004 £m	Recognised in income £m	Recognised in equity £m	Transferred out on disposal £m	Foreign exchange adjustment £m	Balance 31 March 2005 £m
Property, plant and equipment	1.6	(0.2)	–	–	–	1.4
Deferred revenue	0.3	–	–	–	–	0.3
Inventories	1.3	(0.1)	–	(0.2)	–	1.0
Employee benefits	11.8	(0.7)	1.9	–	0.1	13.1
Provisions	0.2	–	–	–	–	0.2
Intangible assets	(1.6)	0.4	–	–	–	(1.2)
Other items	1.1	(0.6)	–	(0.3)	–	0.2
Losses carried forward	0.2	–	–	(0.1)	–	0.1
	14.9	(1.2)	1.9	(0.6)	0.1	15.1

	Balance 1 April 2005 £m	Adoption of IAS 32 and 39 £m	Recognised in income £m	Recognised in equity £m	Recognised in respect of acquisitions £m	Foreign exchange adjustment £m	**Balance 31 March 2006 £m**
Property, plant and equipment	1.4	–	0.2	–	–	–	**1.6**
Deferred revenue	0.3	–	0.1	–	–	–	**0.4**
Inventories	1.0	–	0.5	–	–	–	**1.5**
Employee benefits	13.1	–	0.2	3.1	–	0.1	**16.5**
Provisions	0.2	–	0.2	–	–	–	**0.4**
Intangible assets	(1.2)	–	(0.1)	–	–	–	**(1.3)**
Cash flow hedges	–	0.1	–	(0.1)	–	–	**–**
Other items	0.2	–	(0.3)	–	–	–	**(0.1)**
Losses carried forward	0.1	–	(0.8)	–	0.8	–	**0.1**
	15.1	0.1	–	3.0	0.8	0.1	**19.1**

The deferred tax recognised in respect of acquisitions has been credited against Goodwill as required by IAS 12.

19 INVENTORIES

	2006 £m	2005 £m
Raw materials and consumables	**9.9**	9.0
Work in progress	**10.9**	10.5
Finished goods	**6.3**	4.4
	27.1	23.9

	2006 £m	2005 £m
Inventories stated at fair value less costs to sell	**5.2**	5.6

20 TRADE AND OTHER RECEIVABLES

	2006 £m	2005 £m
Trade receivables	**38.8**	32.7
Less provision for impairment of receivables	**(0.4)**	(0.4)
Net trade receivables	**38.4**	32.3
Prepayments	**2.9**	3.1
Other receivables	**4.0**	11.1
Tax recoverable	**0.9**	0.3
	46.2	46.8

Other receivables includes £2.6m (2005 £5.4m) due from customers in respect of long term contracts. Revenue recognised during the year in respect of long term contracts was £1.3m (2005 £2.7m). Revenue is recognised in accordance with the long term contracts accounting policy which requires management to set milestones and associated cumulative revenue at the start of each contract. The aggregate costs to date plus recognised profits (less recognised losses) in respect of long term contracts in progress at the balance sheet date were £5.9m (2005 £8.8m). Advances received were £0.2m (2005 £1.5m) and have been offset against other receivables.

21 FINANCIAL INSTRUMENTS

Exposure to credit, interest rate and currency risks arises in the normal course of the Group's business. Derivative financial instruments are used to hedge exposure to fluctuations in foreign exchange rates.

Credit risk
Management has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis. Credit evaluations are performed on all customers requiring credit over a certain amount. The Group does not require collateral in respect of financial assets.

Surplus cash is deposited and derivative financial instruments are made only with banks credit ratings of at least AA. Given their high credit ratings, management does not expect any counterparty to fail to meet its obligations.

At the balance sheet date there were no significant concentrations of credit risk. The maximum exposure to credit risk is represented by the carrying amount of each financial asset, including derivative financial instruments, in the balance sheet.

Interest rate risk
The Group has minimal borrowing at present and consequently does not hedge interest rate risk.

Foreign currency risk
The Group is exposed to foreign currency risk on sales, purchases and borrowings that are denominated in a currency other than sterling. The currencies giving rise to this risk are primarily US Dollar, the Euro and Japanese Yen.

21 FINANCIAL INSTRUMENTS continued

Given the high level of net exports, the Group faces currency exposures on trading transactions undertaken by its UK subsidiaries in foreign currencies. To eliminate uncertainty subsidiaries are encouraged to manage all material transactional foreign currency exposures using forward contracts. Subsidiaries are required to maintain a minimum of three months cover. In ordinary circumstances they are not permitted to have cover for more than twelve months ahead. Our overall policy of selling forward net currency receivables provides short-term predictability but not long term protection from sterling movements against other currencies.

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.

Forecasted transactions

The Group classifies as cashflow hedges its forward exchange contracts which are held to hedge forecasted transactions and states them at fair value. The fair value of forward exchange contracts at 1 April 2005 was adjusted against the opening balance of the hedging reserve at that date. The net fair value of forward exchange contract used as hedges of forecasted transactions in respect of which hedge accounting has been applied at 31 March 2006 was £nil.

Recognised assets and liabilities

Changes in the fair value of forward exchange contracts that economically hedge monetary assets and liabilities in foreign currencies and for which no hedge accounting is applied are recognised in the income statement. Both the changes in fair value of the forward contracts and the foreign exchange gains and losses relating to the monetary items are recognised in the income statement within administrative expenses. The net fair value of forward exchange contracts used as economic hedges of monetary assets and liabilities in foreign currencies at 31 March 2006 was an asset of £0.3m. A deferred tax liability of £0.1m was recognised in respect of this.

Fair values

The fair values of financial instruments together with the carrying amounts shown in the balance sheet are as follows:

	Carrying amount 2006 £m	Fair value 2006 £m
Investments	**1.0**	**1.0**
Trade and other receivables	**45.3**	**45.3**
Cash and cash equivalents	**13.9**	**13.9**
Forward exchange contracts:		
Assets	**0.1**	**0.1**
Liabilities	**(0.3)**	**(0.3)**
Unsecured bank borrowings	**(2.9)**	**(2.9)**
Other borrowings	**(0.5)**	**(0.5)**
Trade and other payables	**(38.7)**	**(38.7)**
Bank overdraft	**(1.2)**	**(1.2)**

Effective interest rates and repricing analysis

In respect of income earning financial assets and interest-bearing financial liabilities, the following table indicates their effective interest rates at the balance sheet date and the periods in which they reprice:

	Effective interest rate	Total	Six months or less	Six to twelve months
Unsecured bank borrowings	5.56%	2.9	2.9	–
Bank overdrafts	2.64%	1.2	1.2	–
Cash and cash equivalents	3.63%	13.9	13.9	–

Estimation of fair values

The following summarises the major methods and assumptions used in estimating the fair values of financial instruments reflected in the table.

Investments

See Note 17.

Derivatives

Forward exchange contracts are either marked to market using listed market prices or by discounting the contractual forward price and deducting the current spot rate.

21 FINANCIAL INSTRUMENTS continued

Interest-bearing loans and borrowings

Fair value is calculated based on discounted expected future principal and interest cash flows.

Trade and other receivables/payables

For receivables/payables with a remaining life of less than one year, the notional amount is deemed to reflect the fair value. All other receivables/payables are discounted to determine the fair value.

Forward foreign currency contracts

As explained more fully in Accounting Policies Note f, classifications of financial assets and liabilities are determined on different bases in 2006 and 2005 due to the transitional provisions of IAS 32 and IAS 39. Below are the UK GAAP comparatives for 2005.

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.

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
Japanese Yen	6.9	–	0.1
Euro	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	–
Japanese Yen	–
Euro	–

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 and short term deposits	Euro	floating	1.8
Cash in hand and short term deposits	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

21 FINANCIAL INSTRUMENTS continued

Maturity of financial assets and liabilities

All financial assets and liabilities mature within one year or on demand. The non-current creditors of £1.1m relate to deferred payments on acquisitions made in the current and preceding 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
Expiring in less than 1 year	–
Expiring in more than 2 years but less than 5 years	15.0

22 CASH AND CASH EQUIVALENTS

	2006 £m	2005 £m
Bank balances	**8.9**	14.7
Fixed short-term deposits	**5.0**	15.0
Cash and cash equivalents	**13.9**	29.7
Bank overdrafts	**(1.2)**	(1.1)
Cash and cash equivalents in the statement of cash flows	**12.7**	28.6

23 HELD FOR SALE ASSETS

Held for sale assets at 31 March 2005 represented properties in Abingdon, UK and Oakridge, Tennessee, USA which were surplus to operating requirements. Both properties related to the Analytical segment. The Tennessee property was sold in March 2006. The Abingdon, UK property is available for immediate occupation and being actively marketed.

24 RECONCILATION OF MOVEMENT IN CAPITAL AND RESERVES

	Share capital £m	Share premium account £m	Capital redemption reserve £m	Other reserves £m	Cash flow hedge reserve £m	Foreign exchange translation reserve £m	Retained earnings £m	Total £m
Total recognised income/(expense) for the period	–	–	–	–	–	–	1.4	1.4
Credit in respect of employee service costs settled by award of share options	–	–	–	–	–		0.2	0.2
Proceeds from shares issued	–	0.4	–	–	–	–	–	0.4
Dividends paid	–	–	–	–	–	–	(15.7)	(15.7)
Opening equity shareholders' funds at 1 April 2004	2.4	19.0	0.1	15.9	–	–	34.3	71.7
Closing equity shareholders' funds at 31 March 2005	**2.4**	**19.4**	**0.1**	**15.9**	**–**	**–**	**20.2**	**58.0**

24 RECONCILATION OF MOVEMENT IN CAPITAL AND RESERVES continued

	Share capital £m	Share premium account £m	Capital redemption reserve £m	Other reserves £m	Cash flow hedge reserve £m	Foreign exchange translation reserve £m	Retained earnings £m	Total £m
Total recognised income/(expense) for the period	–	–	–	–	(0.2)	0.9	(10.8)	(10.1)
Credit in respect of employee service costs settled by award of share options	–	–	–	–	–	–	0.3	0.3
Proceeds from shares issued	–	0.8	–	–	–	–	–	0.8
Disposal of own shares held	–	–	–	–	–	–	0.1	0.1
Dividends paid	–	–	–	–	–	–	(2.9)	(2.9)
Opening equity shareholders' funds at 1 April 2005	2.4	19.4	0.1	15.9	–	–	20.2	58.0
Arising on adoption of IAS 32 and IAS 39	–	–	–	–	0.2	–	–	0.2
Closing equity shareholders' funds at 31 March 2006	**2.4**	**20.2**	**0.1**	**15.9**	**–**	**0.9**	**6.9**	**46.4**

The capital redemption reserve represents the nominal value of shares repurchased and then cancelled during the year ended 31 March 1999.

The other reserve represents negative purchased goodwill arising since flotation in October 1983 which has been added directly to reserves.

The translation reserve comprises all foreign exchange differences arising since 1 April 2004 from the translation of the Group's net investments in foreign subsidiaries into sterling.

The hedging reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments related to hedged transactions that have not yet occurred.

The Group holds 826,441 (2005 994,997) of its own shares in an employee benefit trust. The cost of these shares is included within retained earnings.

25 CALLED UP SHARE CAPITAL

Issued and fully paid ordinary shares:

	2006 Shares	2005 Shares
At beginning of the period	**48,308,217**	48,089,887
Issued for cash	**430,375**	218,330
At the end of the period	**48,738,592**	48,308,217

	2006 Shares 000	**2006 £m**	2005 Shares 000	2005 £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	**48,739**	**2.4**	48,308	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	121,456	£6,073	£1.270 – £1.870
Exercise of Executive Share Options	282,339	£14,117	£1.585 – £1.875
New shares sold for cash	26,580	£1,329	£2.175 – £2.4125

25 CALLED UP SHARE CAPITAL continued

	2006 Number of shares	Option price range	Period when exercisable	2005 Number of shares
Options subsisting at the year end on unissued ordinary shares				
Executive Share Option Schemes	**2,171,670**	£1.480 – £4.870	01/04/06 – 14/12/15	3,009,070
Savings Related Share Option Scheme	**492,705**	£1.270 – £2.140	01/04/06 – 31/07/11	525,466
Total options subsisting on unissued ordinary shares	**2,664,375**			3,534,536
Percentage of issued share capital	**5.5%**			7.3%
Options subsisting at the year end on existing ordinary shares held in trust				
Senior Executive Long Term Incentive Scheme	**294,692**	Nil	01/04/06 – 14/12/12	254,442
Executive Share Option Scheme	**81,250**	£1.945 – £1.960	01/04/06 – 23/12/09	92,250
Individual Options	**150,000**	£2.950	01/04/06 – 19/12/08	308,556
Savings Related Share Option Scheme	**99,283**	£1.640 – £1.750	01/02/08 – 31/07/09	131,673
Total options subsisting on existing ordinary shares held in trust	**625,225**			786,921

26 BORROWINGS

	2006 £m	2005 £m
Interest bearing loans	**2.9**	2.1
Other creditors – non interest bearing	**0.5**	1.1
Total borrowings	**3.4**	3.2
Less long term portion	**(0.5)**	(1.1)
Current borrowings	**2.9**	2.1

None of the loans are secured on the assets of the Group.

The interest bearing bank loan relates to a floating rate US dollar loan made in the US to the Group's US operation. It is repayable on demand.

The other creditors relate to deferred consideration in respect of acquisitions made in 2005 and other long term creditors.

27 RETIREMENT BENEFIT OBLIGATIONS

The Group operates defined benefit plans in the UK and US, both offer pensions in retirement and death benefit to members. Pension benefits are related to members' final salary at retirement and their length of service. Both schemes are now closed to new employees.

The Group has opted to recognise all actuarial gains and losses immediately via the Statement of Recognised Income and Expenditure (SORIE).

The amounts recognised in the balance sheet are:

	UK 2006 £m	**USA 2006 £m**	**Total 2006 £m**	UK 2005 £m	USA 2005 £m	Total 2005 £m
Present value of funded obligations	**173.2**	**7.6**	**180.8**	139.1	6.0	145.1
Fair value of plan assets	**(123.3)**	**(4.1)**	**(127.4)**	(98.6)	(3.2)	(101.8)
Recognised liability for defined benefit obligations	**49.9**	**3.5**	**53.4**	40.5	2.8	43.3

27 RETIREMENT BENEFIT OBLIGATIONS continued

Reconciliation of the opening and closing balances of the present value of the defined benefit obligation

	UK 2006 £m	**USA 2006 £m**	**Total 2006 £m**	UK 2005 £m	USA 2005 £m	Total 2005 £m
Benefit obligation at the beginning of the year	**139.1**	**6.0**	**145.1**	124.3	4.4	128.7
Interest on obligation – continuing operations	**7.6**	**0.3**	**7.9**	4.9	0.2	5.1
Interest on obligation – discontinued operations	**–**	**–**	**–**	2.1	0.1	2.2
Current service cost – continuing operations	**2.2**	**0.6**	**2.8**	2.2	0.3	2.5
Current service cost – discontinued operations	**–**	**–**	**–**	0.4	0.1	0.5
Past service cost	**0.1**	**–**	**0.1**	–	–	–
Contributions paid by plan participants	**1.1**	**–**	**1.1**	1.4	–	1.4
Benefits paid	**(2.0)**	**(0.3)**	**(2.3)**	(2.0)	(0.1)	(2.1)
Actuarial loss on obligation	**25.1**	**0.4**	**25.5**	6.8	1.2	8.0
Settlements and curtailments – discontinued operations	**–**	**–**	**–**	(1.0)	–	(1.0)
Exchange rate adjustment	**–**	**0.6**	**0.6**	–	(0.2)	(0.2)
Benefit obligation at the end of the year	**173.2**	**7.6**	**180.8**	139.1	6.0	145.1

Reconciliation of the opening and closing balances of the fair value of plan assets

	UK 2006 £m	**USA 2006 £m**	**Total 2006 £m**	UK 2005 £m	USA 2005 £m	Total 2005 £m
Fair value of plan assets at the beginning of the year	**98.6**	**3.2**	**101.8**	88.8	2.7	91.5
Expected return on plan assets – continuing operations	**7.0**	**0.2**	**7.2**	4.4	0.2	4.6
Expected return on plan assets – discontinued operations	**–**	**–**	**–**	1.9	–	1.9
Contributions by employers	**3.4**	**0.7**	**4.1**	2.3	0.4	2.7
Contributions paid by plan participants	**1.1**	**–**	**1.1**	1.4	–	1.4
Benefits paid	**(2.0)**	**(0.3)**	**(2.3)**	(2.0)	(0.1)	(2.1)
Actuarial gain	**15.2**	**–**	**15.2**	1.8	0.1	1.9
Exchange rate adjustment	**–**	**0.3**	**0.3**	–	(0.1)	(0.1)
Fair value assets at the end of the year	**123.3**	**4.1**	**127.4**	98.6	3.2	101.8

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 2006, 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 distribution plan in the USA.

Expense recognised in the income statement

	2006 £m	2005 £m
Current service cost	**2.8**	2.5
Past service cost	**0.1**	–
Interest on obligation	**7.9**	5.1
Expected return on plan assets	**(7.2)**	(4.6)
Total – defined benefit	**3.6**	3.0
Contributions to defined contribution schemes	**1.1**	0.6
	4.7	3.6

27 RETIREMENT BENEFIT OBLIGATIONS continued

The pension costs are recorded in the following lines of the income statement:

	2006 £m	2005 £m
Cost of sales	**1.6**	1.6
Selling and marketing costs	**0.5**	0.4
Administrative expenses	**1.3**	0.3
Research and development	**0.6**	0.5
Financial income	**(7.2)**	(6.5)
Financial expenditure	**7.9**	7.3
	4.7	3.6

Actuarial gains and losses shown in the statement of recognised income and expenditure:

	2006 £m	2005 £m
Actuarial loss	**10.3**	6.1

Actual return on plan assets

	2006 £m	2005 £m
Expected return on plan assets	**7.2**	6.5
Actuarial gain	**15.2**	1.9
Actual return on plan assets	**22.4**	8.4

History of experience gains and losses in both defined benefit schemes are as follows:

	UK 2006	UK 2005	USA 2006	USA 2005
Difference between the expected and actual return:				
Amount £m	**15.2**	1.9	**–**	–
% of scheme assets	**12%**	2%	**–**	–
Experience losses on scheme liabilities:				
Amount £m	**(25.1)**	(6.8)	**(0.4)**	(1.2)
% of the present value of the scheme liabilities	**15%**	5%	**5%**	20%

Defined benefit scheme – United Kingdom

A full actuarial valuation of the UK scheme was carried out as at 31 March 2003 and has been updated to 31 March 2006 by a qualified independent actuary. The major assumptions used by the actuary were (in nominal terms):

	As at 31 March 2006 %	As at 31 March 2005 %
Discount rate (AA rated corporate bond rate)	**4.9**	5.4
Rate of salary increase	**4.0**	3.9
Rate of increase to pensions in payment	**2.8**	2.7
Rate of inflation	**3.0**	2.9
Mortality – pre-retirement – males	**PA91c2030**	PMA92c2015
Mortality – pre-retirement – females	**PA91c2030**	PFA92c2015
Mortality – post-retirement – males	**PA92c2015**	PMA92c2005
Mortality – post-retirement – females	**PA92c2015**	PFA92c2005

The assumptions used in determining the overall expected rate of return of the plan have been set with reference to yields available on government bonds and appropriate risk margins.

27 RETIREMENT BENEFIT OBLIGATIONS continued

The mortality assumptions imply the following expected future lifetime from age 65:

	2006	2005
Pre-retirement – males	**20.5**	19.4
Pre-retirement – females	**23.4**	22.4
Post-retirement – males	**19.4**	18.5
Post-retirement – females	**22.4**	21.4

The assumptions have been chosen by the Directors from a range of possible actuarial assumptions, which due to the timescales covered, may not be borne out in practice.

The assets in the UK defined benefit scheme and the expected rate of return were:

	Long-term rate of return expected at 31 March 2006 %	**Value at 31 March 2006 £m**	Long-term rate of return expected at 31 March 2005 %	Value at 31 March 2005 £m
Equities	**7.5**	**66.5**	8.0	56.1
Corporate bonds	**4.9**	**8.4**	-	-
Gilts	**4.2**	**26.9**	4.7	23.6
Property	**6.0**	**10.6**	6.5	8.8
Cash and other assets	**4.5**	**0.9**	4.0	1.6
Absolute return fund	**7.0**	**10.0**	7.5	8.5
		123.3		98.6

Defined benefit scheme – United States

A full actuarial valuation of the US plan was carried out as at 1 January 2005 and has been updated to 31 December 2005 by a qualified independent actuary. Results at 31 March 2006 have been taken to be the same as those at 31 December 2005. The major assumptions used by the actuary were (in nominal terms):

	As at 31 March 2006 %	As at 31 March 2005 %
Discount rate	**5.25**	5.25
Rate of salary increase	**4.00**	4.00
Rate of increase to pensions in payment	**0.00**	0.00
Rate of inflation	**3.00**	3.00
Mortality – pre-retirement	**1983 Group Annuity Table, male and female**	1983 Group Annuity Table, male and female
Mortality – post-retirement	**1994 Group Annuity Reserving Table, split 50% for males and females**	1983 Group Annuity Table, male and female

The assumptions used in determining the overall expected rate of return of the plan have been set with reference to yields available on government bonds and appropriate risk margins.

The mortality assumptions imply the following expected future lifetime from age 65:

	2006	2005
Pre-retirement – males	**19.4**	19.4
Pre-retirement – females	**19.4**	19.4
Post-retirement – males	**18.0**	16.7
Post-retirement – females	**20.3**	21.3

The assumptions have been chosen by the Directors from a range of possible actuarial assumptions, which due to the timescales covered, may not be borne out in practice.

27 RETIREMENT BENEFIT OBLIGATIONS continued

The assets in the plan and the expected rate of return were:

	Long term rate of return expected at 31 March 2006 %	Value at 31 March 2006 £m	Long term rate of return expected at 31 March 2005 %	Value at 31 March 2005 £m
Equities	**8.05**	**2.2**	8.50	1.5
Bonds	**5.25**	**1.6**	5.25	1.4
Property	**7.30**	**0.3**	7.00	0.3
Other	**–**	**–**	–	–
		4.1		3.2

28 TRADE AND OTHER PAYABLES

	2006 £m	2005 £m
Trade payables	**21.9**	22.4
Social security and other taxes	**1.0**	1.2
Accrued expenses	**12.4**	17.1
Other creditors	**3.4**	3.6
	38.7	44.3

Payables includes accrued costs of £0.7m (2005 £0.5m) in respect of long term contracts.

29 PROVISIONS FOR OTHER LIABILITIES AND CHARGES

	Warranties £m	Restructuring £m	Other £m	Total £m
Balance at 1 April 2005	2.6	3.5	0.7	6.8
Provisions made during the year	3.2	1.7	0.3	5.2
Provisions used during the year	(2.4)	(2.1)	(0.6)	(5.1)
Provisions reversed during the year	(0.9)	–	–	(0.9)
Exchange adjustment	0.1	–	–	0.1
Balance at 31 March 2006	**2.6**	**3.1**	**0.4**	**6.1**

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. Restructuring provisions relate to the closure of the UK based magnet business and the sale of the Group's Medical business in 2005. The magnet business provision relates to employee redundancy costs and costs associated with terminating supplier commitments and are expected to become payable within the next year. The Medical business provision relates mainly to possible claims due under the warranties and indemnities given at the time of sale. A claim, including a claim under tax indemnities, could arise at any time between now and 1 March 2012.

30 OPERATING LEASES

Leases as lessee
Non-cancellable operating lease rentals are payable as follows:

	2006 £m	2005 £m
Less than one year	**0.5**	0.7
Between one and five years	**3.6**	3.2
More than five years	**2.7**	1.6
	6.8	5.5

31 CAPITAL COMMITMENTS

During the year ended 31 March 2006, the Group entered into contracts to purchase property, plant and equipment for £0.5m (2005 £0.6m). These commitments are expected to be settled in the following financial year.

32 CONTINGENCIES

Certain subsidiaries of the Group have, in the normal course of business, given guarantees in respect of performance bonds.

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.

33 RELATED PARTIES

The Group has a related party relationship with its subsidiaries (see Note 34) and with its Directors and Executive officers.

Transactions with key management personnel are disclosed in the Director's Remuneration Report on pages 32 to 37. There were no other significant transactions with key management personnel in either the current or preceding year other than the following.

During the year the Company had the following transactions with Imperialise Limited of which Nigel Keen is a Director:

	2006		2005	
	Purchases £m	**Current liabilities £m**	Purchases £m	Current liabilities £m
	0.1	**–**	0.2	–

34 GROUP ENTITIES

	Equity owned by the company %	Country of incorporation	Principal activity
Oxford Instruments Analytical Holdings Ltd	100	Great Britain	Holding
Oxford Instruments Overseas Holdings Ltd	100	Great Britain	Holding
Oxford Instruments Superconductivity Holdings Ltd	100	Great Britain	Holding
Oxford Instruments Overseas Marketing Ltd	*100	Great Britain	Marketing
Oxford Instruments Analytical Ltd	*100	Great Britain	Trading
Oxford Instruments Molecular Biotools Ltd	*100	Great Britain	Trading
Oxford Instruments Plasma Technology Ltd	*100	Great Britain	Trading
Oxford Instruments Superconductivity Ltd (trading as Oxford Instruments NanoScience)	*100	Great Britain	Trading
Oxford Instruments America Inc	*100	USA	Distribution
Oxford Instruments OST Holdings LLC	*100	USA	Holding
Oxford Instruments (Tennessee) Inc	*100	USA	Holding
Oxford Instruments Holdings Inc	*100	USA	Holding
Austin Scientific Company	*100	USA	Trading
Oxford Instruments X-Ray Technology Inc	*100	USA	Trading
Oxford Superconducting Technology	*100	USA	Trading
HKL Technologies A/S	*100	Denmark	Trading
Oxford Instruments Analytical Oy	*99.1	Finland	Trading
Oxford Instruments SAS	*100	France	Distribution
Oxford Instruments GmbH	*100	Germany	Distribution
Oxford Instruments Measurement Systems GmbH	*100	Germany	Distribution
Oxford Instruments KK	*100	Japan	Distribution
Oxford Instruments (Shanghai) Company Ltd	*100	China	Trading
Oxford Instruments Pte Ltd	*100	Singapore	Distribution

A full list of the Group companies as at 31 March 2006 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.

Oxford Instruments Analytical Oy is accounted for as though it is a 100% subsidiary since the 0.9% minority interest is not considered material.

35 ACCOUNTING ESTIMATES AND JUDGEMENTS

Management discussed with the Audit Committee the development, selection and disclosure of the Group's critical accounting policies and estimates and the application of these policies and estimates.

Provisions
Note 29 contains information about provisions. Provisions are judgemental by their nature. Amounts provided are the Group's best estimate of exposure based on currently available information.

Impairment of goodwill
Note 16 contains information about the assumptions relating to goodwill impairment tests.

Foreign currency exposure
Note 21 contains information about the foreign currency exposure of the Group and risks in relation to foreign exchange movements.

Pension assumptions
The principal actuarial assumptions applied to pensions are shown in Note 27. The actuarial evaluation of pension assets and liabilities is based on assumptions in respect on inflation, future salary increases, discount rates, returns on investments and mortality rates. Due to their sizes relatively small changes in the assumptions underlying the actuarial valuation of pension schemes can have a significant impact on the net pension liability included in the balance sheet and the associated deferred tax asset.

36 SUBSEQUENT EVENTS

The interim dividend of 2.4p per share (total cost £1.1m) was paid after the balance sheet date. In addition on 13 June 2006 the Directors proposed a final dividend of 6.0p per ordinary share (total cost £2.9m). The total amount of £4.0m has not been provided for and there are no income tax consequences.

37 TRANSITION TO IFRS

As stated in Accounting Policies on pages 40 to 45, these are the Group's first consolidated financial statements prepared in accordance with Adopted IFRSs.

The accounting policies set out on pages 40 to 45 have been applied in preparing the financial statements for the year ended 31 March 2006, the comparative information presented in these financial statements for the year ended 31 March 2005 and in the preparation of an opening IFRS balance sheet at 1 April 2004, the Group's date of transition.

In preparing its opening IFRS balance sheet, the Group has adjusted amounts reported previously in financial statements prepared in accordance with its old basis of accounting (UK GAAP). An explanation of how the transition from UK GAAP to Adopted IFRSs has affected the Group's financial position, financial performance and cash flows set out in the following tables and notes that accompany the tables.

Reconciliation of profit for the year ended 31 March 2005

	Notes	Previous UK GAAP £m	Effect of transition to IFRS £m	IFRS £m
Revenue	n	156.5	(1.7)	154.8
Cost of goods sold		(110.4)	–	(110.4)
Gross profit		46.1	(1.7)	44.4
Selling and marketing costs		(19.5)	–	(19.5)
Administrative expenses	o	(7.9)	1.9	(6.0)
Research and development	p	(11.3)	(0.2)	(11.5)
Trading profit		7.4	–	7.4
Other operating income		0.2	–	0.2
Amortisation of acquired intangibles	q	(1.1)	(0.2)	(1.3)
Restructuring and other non-recurring costs	r	(5.7)	(0.5)	(6.2)
Operating profit		0.8	(0.7)	0.1
Financial income	s	0.7	4.6	5.3
Financial expenditure	s	(0.2)	(5.1)	(5.3)
Profit before income tax		1.3	(1.2)	0.1
Income tax expense	t	(1.9)	0.2	(1.7)
Loss after taxation		(0.6)	(1.0)	(1.6)
Discontinued operations:				
Profit from discontinued operations – net of tax	u	2.2	5.0	7.2
Profit for the period		1.6	4.0	5.6

	pence	pence	pence
Earnings per share:			
Basic earnings per share – continuing	(1.2)	(1.8)	(3.0)
Diluted earnings per share – continuing	(1.2)	(1.9)	(3.1)

Earnings per share in respect of discontinued operations are given in Note u.

37 TRANSITION TO IFRS continued

Reconciliation of equity

	Notes	Opening balance sheet as at 1 April 2004			Closing balance sheet as at 31 March 2005			Opening balance sheet as at 1 April 2005*		
		Previous UK GAAP £m	Effect of transition to IFRS £m	IFRS £m	Previous UK GAAP £m	Effect of transition to IFRS £m	IFRS £m	Previous UK GAAP £m	Effect of transition to IFRS £m	IFRS £m
ASSETS										
Non-current assets										
Property, plant and equipment	a	32.6	(5.9)	26.7	28.6	(5.6)	23.0	28.6	(5.6)	23.0
Intangible assets	b	2.6	4.3	6.9	9.3	3.2	12.5	9.3	3.2	12.5
Investments in associates		1.6	–	1.6	1.6	–	1.6	1.6	–	1.6
Deferred income tax assets	c	5.2	9.7	14.9	3.8	11.3	15.1	3.8	11.2	15.0
		42.0	8.1	50.1	43.3	8.9	52.2	43.3	8.8	52.1
Current assets										
Inventories		28.5	–	28.5	23.9	–	23.9	23.9	–	23.9
Trade and other receivables	d	53.7	2.1	55.8	43.7	3.1	46.8	43.7	2.6	46.3
Derivative financial instruments	e	–	–	–	–	–	–	–	1.1	1.1
Cash and cash equivalents	f	23.2	–	23.2	29.7	–	29.7	29.7	(0.1)	29.6
Held for sale assets	g	–	6.0	6.0	–	5.4	5.4	–	5.4	5.4
		105.4	8.1	113.5	97.3	8.5	105.8	97.3	9.0	106.3
Total assets		147.4	16.2	163.6	140.6	17.4	158.0	140.6	17.8	158.4
EQUITY										
Capital and reserves attributable to the Company's equity holders										
Share capital		21.4	–	21.4	21.8	–	21.8	21.8	–	21.8
Other reserves	h	16.0	–	16.0	16.0	–	16.0	16.0	0.2	16.2
FX translation		–	–	–	0.1	(0.1)	–	0.1	(0.1)	–
Retained earnings	i	54.7	(20.4)	34.3	44.1	(23.9)	20.2	44.1	(23.9)	20.2
		92.1	(20.4)	71.7	82.0	(24.0)	58.0	82.0	(23.8)	58.2
LIABILITES										
Non-current liabilities										
Borrowings		–	–	–	1.1	–	1.1	1.1	–	1.1
Retirement benefit obligations	j	0.9	36.3	37.2	0.9	42.4	43.3	0.9	42.4	43.3
		0.9	36.3	37.2	2.0	42.4	44.4	2.0	42.4	44.4
Current liabilities										
Borrowings		1.6	–	1.6	2.1	–	2.1	2.1	–	2.1
Bank overdrafts		0.9	–	0.9	1.1	–	1.1	1.1	–	1.1
Trade and other payables	k	45.4	0.3	45.7	43.6	0.7	44.3	43.6	0.8	44.4
Current income tax liabilities		2.1	–	2.1	1.3	–	1.3	1.3	–	1.3
Derivative financial instruments	l	–	–	–	–	–	–	–	0.1	0.1
Provisions for other liabilities and charges	m	4.4	–	4.4	8.5	(1.7)	6.8	8.5	(1.7)	6.8
		54.4	0.3	54.7	56.6	(1.0)	55.6	56.6	(0.8)	55.8
Total liabilities		55.3	36.6	91.9	58.6	41.4	100.0	58.6	41.6	100.2
Total liabilities and equity		147.4	16.2	163.6	140.6	17.4	158.0	140.6	17.8	158.4

*Restated on adoption of IAS 32 Financial Instruments: Disclosure and Presentation and IAS 39 Financial Instruments: Recognition and Measurement.

37 TRANSITION TO IFRS continued

NOTES TO RECONCILIATION OF EQUITY

The notes below identify the adjustments made from UK GAAP to IFRS for each line item in the restated consolidated balance sheets.

a) Property, plant and equipment

	1 April 2004 £m	31 March 2005 £m	1 April 2005 £m
Reclassification of empty properties to held for sale assets	(5.9)	(5.6)	(5.6)

Under IFRS empty properties are classified as held for sale assets – see Note g.

b) Intangible assets

	1 April 2004 £m	31 March 2005 £m	1 April 2005 £m
Goodwill			
Goodwill arising since 1 April 2004 reclassified as purchased intangible assets	–	(1.9)	(1.9)
Reversal of amortisation changed since 1 April 2004	–	0.9	0.9
Foreign exchange adjustment	(0.4)	(0.6)	(0.6)
	(0.4)	(1.6)	(1.6)
Purchased intangible assets			
Reclassified from goodwill	–	1.9	1.9
Amortisation charged	–	(1.1)	(1.1)
	–	0.8	0.8
Development costs			
Cumulative costs capitalised	5.6	7.1	7.1
Cumulative amortisation charged	(0.9)	(2.5)	(2.5)
Written off on sale of Medical business	–	(0.6)	(0.6)
	4.7	4.0	4.0
Total intangible assets	4.3	3.2	3.2

The Group has applied IFRS 3 to all business combinations that have occurred since 1 April 2004 (the date of transition to IFRS). As a result part of the goodwill which arose after that date under UK GAAP has been reclassified as purchased intangible assets.

Under UK GAAP goodwill was amortised on a straight-line basis in the profit or loss based on an individual assessment of the economic life of the asset, however, with a maximum of 20 years. Under IFRS goodwill is not amortised but measured at cost less impairment losses with a review of impairment annually. Accordingly, the carrying value of goodwill is frozen at 1 April 2004 (the date of transition to IFRS) and amortisation charged under UK GAAP since that date has been reversed.

Under IAS 21 goodwill arising on a foreign acquisition is treated as a foreign currency asset in the local currency of the acquired entity. Under UK GAAP goodwill was frozen in sterling at the time of acquisition. As a result a foreign exchange adjustment has been made to the carrying value of goodwill.

Under IFRS certain development costs are recognised as an intangible asset – when particular criteria are met – and measured at cost less accumulated amortisation. Amortisation commences when the asset is available for use. Under UK GAAP development costs were recognised as an expense as incurred.

37 TRANSITION TO IFRS continued

c) Deferred taxation

	1 April 2004 £m	31 March 2005 £m	1 April 2005 £m
Changes in deferred taxation arising as a result of:			
Employee benefits	11.1	12.3	12.3
Capitalised development costs	(1.5)	(1.2)	(1.4)
Other	0.1	0.2	0.3
	9.7	11.3	11.2

The transition to IFRS has resulted in the recognition of additional deferred tax assets and liabilities in respect of the other adjustments made and discussed elsewhere in this report. Additionally, the method of calculation of deferred tax under IFRS is different to the approach under previous UK GAAP, however, the impact of this on the overall deferred tax asset carried by the group is not significant.

d) Trade and other receivables

	1 April 2004 £m	31 March 2005 £m	1 April 2005 £m
Reclassification of pension debtor	(0.2)	–	–
Reclassification of amounts recoverable on long term contracts	2.3	3.1	3.1
Revaluation of foreign currency balances to spot from contract rate	–	–	(0.5)
	2.1	3.1	2.6

Pension prepayments

Pension prepayments previously made under UK GAAP have been reclassified to retirement benefit obligations as part of the adoption of IAS 19 Employee benefits – see Note j.

Long term contract accounting

Previous UK GAAP permitted a degree of setting off of balances in respect of long term contracts. However, under IFRS these must be grossed up – see also Note k.

Foreign currency balances

The group has adopted IAS39 with effect from 1 April 2005 (the date of adoption of IFRS). Under previous UK GAAP foreign currency balances were valued at the rate applicable to the forward exchange contract which hedged the foreign currency balance. Under IFRS foreign currency balances are valued at spot rate at the end of the period – see Note h.

e) Derivative financial instruments

	1 April 2004 £m	31 March 2005 £m	1 April 2005 £m
Fair value of forward foreign exchange contracts	–	–	1.1

The group has adopted IAS39 with effect from 1 April 2005 (the date of adoption of IFRS) – see Note h.

f) Cash and cash equivalents

	1 April 2004 £m	31 March 2005 £m	1 April 2005 £m
Revaluation of foreign currency balances to spot from contract rate	–	–	(0.1)

The group has adopted IAS39 with effect from 1 April 2005 (the date of adoption of IFRS) – see Note h.

37 TRANSITION TO IFRS continued

g) Held for sale assets

	1 April 2004 £m	31 March 2005 £m	1 April 2005 £m
Empty properties as held for sale assets	5.9	5.6	5.6
Depreciation written back	0.4	0.6	0.6
Provision for impairment	(0.3)	(0.8)	(0.8)
	6.0	5.4	5.4

Under UK GAAP non-current assets held for resale were carried at cost less accumulated depreciation. Under IFRS5 these assets are carried at cost less impairment losses and recorded as held for sale assets rather than fixed assets. Depreciation previously charged under UK GAAP has been reversed to the extent that it relates to the period after the properties were put up for sale.

h) Other reserves

	1 April 2004 £m	31 March 2005 £m	1 April 2005 £m
Gain in respect of forward foreign exchange contracts designated as hedging instruments	–	–	0.3
Deferred tax in respect of the above	–	–	(0.1)
	–	–	0.2

The Group has adopted IAS39 with effect from 1 April 2005 (the date of adoption of IFRS). Under previous UK GAAP forward foreign exchange contracts were only recognised to the extent that they hedged foreign currency assets or liabilities existing at the balance sheet date. The profit or loss on those contracts was netted against those foreign currency balances in the balance sheet.

Under IFRS the fair value of forward foreign exchange contracts is carried as a separately identified asset or liability (see Notes e and l). The gain on contracts which did not relate to foreign currency assets or liabilities existing at 1 April 2005 date has been recognised within a separate hedging reserve. A deferred tax liability has been deducted from this gain.

i) Retained earnings

	1 April 2004 £m	31 March 2005 £m	1 April 2005 £m
Impact of adjustments:			
Pensions	(36.5)	(40.4)	(40.4)
Holiday pay accrual	(0.5)	(0.5)	(0.5)
Post balance sheet events – dividend payable	2.8	2.9	2.9
Research and development	4.7	4.0	4.0
Empty properties	0.1	(0.2)	(0.2)
Revenue recognition	(0.3)	(0.3)	(0.3)
Goodwill and intangible assets	(0.4)	(0.8)	(0.8)
Taxation	9.7	11.3	11.3
Foreign exchange translation differences	–	0.1	0.1
	(20.4)	(23.9)	(23.9)

The above table shows the cumulative effect on retained earnings of the adjustments described elsewhere in this document.

With effect from 1 April 2004 (the date of transition to IFRS) foreign currency translation differences are recorded in a separate translation reserve. As a result foreign currency translation differences which were previously recorded within retained earnings under UK GAAP for the period after 1 April 2004 have now been transferred to the translation reserve. Translation differences which arose prior to that date have been frozen within retained earnings as allowed by IFRS 1.

37 TRANSITION TO IFRS continued

j) Retirement benefit obligation

	1 April 2004 £m	31 March 2005 £m	1 April 2005 £m
Net additional liability required under IAS 19	36.5	40.4	40.4
Reclassification from prepayments	(0.2)	–	–
Reclassification from accruals	–	0.3	0.3
Reclassification from provisions	–	1.7	1.7
	36.3	42.4	42.4

IAS 19 has been adopted from the date of transition as the Group has opted to apply the exemption in IFRS 1 to recognise all cumulative actuarial gains and losses at the date of transition to IFRS as an adjustment to retained earnings. IAS 19 prescribes a similar valuation approach to FRS 17. All post retirement benefits where the actuarial and investment risk falls on the Group must be provided for. This has required an increased liability to be shown on the balance sheet as well as the reclassification of amounts shown previously under provisions and accruals under previous UK GAAP. The effect on the Group's balance sheet is shown above.

The service cost element of the annual pension costs is recorded within administrative expenses (see Note o), the expected return on scheme assets is included within financial income (see Note s), the interest on the pension liability is recorded within financial expenditure (see Note s) and the actuarial cost element is recorded with the statement of recognised income and expense.

k) Trade and other payables

	1 April 2004 £m	31 March 2005 £m	1 April 2005 £m
Reclassification of pension accrual	–	(0.3)	(0.3)
Reclassification of amounts recoverable on long term contracts	2.3	3.1	3.1
Increase in holiday pay accrual	0.5	0.5	0.5
Increase in deferred revenue	0.3	0.3	0.3
Reversal of dividend payable	(2.8)	(2.9)	(2.9)
Revaluation of foreign currency balances to spot from contract rate	–	–	0.1
	0.3	0.7	0.8

Pension accrual
Pension accruals previously made under UK GAAP have been reclassified to retirement benefit obligations as part of the adoption of IAS 19 Employee benefits – see Note j.

Long term contract accounting
Previous UK GAAP permitted a degree of setting off of balances in respect of long term contracts. However, under IFRS these must be grossed up – see also Note d.

Holiday pay accruals
Under IFRS full provision is required in respect of employee's accrued holiday entitlements. As a result a further accrual has been made.

Revenue recognition
IFRS provides more guidance in respect of accounting for revenue recognition than previously available under UK GAAP. The main impact for the group is the deferral of certain revenue relating to installation contracts.

Proposed dividends
Under IFRS dividends to shareholders authorised for payment after the balance sheet date are not recognised as a liability at the balance sheet date but disclosed separately in the notes. Under UK GAAP dividends declared for the accounting year were recognised as a liability.

Foreign currency balances
The group has adopted IAS39 with effect from 1 April 2005 (the date of adoption of IFRS) – see Note h.

37 TRANSITION TO IFRS continued

l) Derivative financial instruments

	1 April 2004 £m	31 March 2005 £m	1 April 2005 £m
Fair value of forward foreign exchange contracts	–	–	0.1

The group has adopted IAS39 with effect from 1 April 2005 (the date of adoption of IFRS) – see Note h.

m) Provisions

	1 April 2004 £m	31 March 2005 £m	1 April 2005 £m
Reclassification of pension provision	–	(1.7)	1.7

Pension provisions previously carried within the restructuring provision under UK GAAP have been reclassified to retirement benefit obligations as part of the adoption of IAS 19 Employee benefits (see Note j).

NOTES TO THE CONSOLIDATED INCOME STATEMENTS

The notes below identify the adjustments made from UK GAAP to IFRS for each line item in the restated consolidated income statements.

n) Revenue

	31 March 2005 £m
Decrease in revenue as a result of using the exchange rates prevailing at the time of the transaction	(1.7)
Change in revenue recognition	–
	(1.7)

Under previous UK GAAP revenue was recorded at the average contract rate applying. Under IFRS revenue is recorded at the exchange rate applying at the time of the sale with any difference between that rate and the rate achieved by the group being recognised as a separate line within administrative expenses – see Note o.

See Note k for an explanation of the change in revenue recognition policy.

o) Administrative expenses

	31 March 2005 £m
Exchange gain arising from restatement of revenue and administrative expenses to rate prevailing at the time of transaction	1.7
Reversal of depreciation charged in respect of empty properties	0.2
Credit in respect of holiday pay accrual	–
Charge in respect of employee share options	(0.2)
Decrease in pension cost resulting from the adoption of IAS 19	0.2
	1.9

Foreign exchange

Under previous UK GAAP profit and loss account line items were recorded at the average contract rate applying. Under IFRS they are recorded at the exchange rate applying at the time of the sale with any difference between that rate and the rate achieved by the group being recognised as a separate line within administrative expenses. The main impact on the group is the restatement of revenue and certain administrative expenses.

Depreciation

See Note g for an explanation of the reversal of depreciation charged in respect of empty properties.

37 TRANSITION TO IFRS continued

o) Administrative expenses continued

Holiday pay

See Note k for an explanation of the change in respect of holiday pay accruals.

Share options

The Group applied IFRS 2 to its unvested share-based payment arrangements at 1 January 2005 except for equity-settled share-based payment arrangements granted before 7 November 2002. The Group has granted equity-settled share-based payments in 2004 and 2005. The Group accounted for these share-based payment arrangements at intrinsic value under previous UK GAAP. Under IFRS the payments are accounted for at fair value using either a "Black-Scholes" or "Monte-Carlo" stochastic model. A charge is made to the income statement and a corresponding credit is made to the retained earnings element of equity. As a result total income for the year is reduced but there is no overall impact on retained earnings or equity.

Pension cost

See Note j for a full explanation of the impact of the adoption of IAS 19. The (charge)/credit above represents the additional cost in the year of IAS 19 compared to previous UK GAAP.

p) Research and development

	31 March 2005 £m
Costs capitalised during the period	1.2
Amortisation charged	(1.4)
	(0.2)

See Note b for an explanation of the changes to accounting for research and development.

q) Amortisation of intangibles

	31 March 2005 £m
Reversal of amortisation charged on goodwill	0.9
Amortisation of acquired intangibles	(1.1)
	(0.2)

See Note b for an explanation of the changes to accounting for goodwill and purchased intangible assets. The impact on the income statement is the reversal of amortisation previously charged on goodwill but amortisation is suffered in respect of intangible assets not previously recognised under UK GAAP.

r) Restructuring and other non-recurring costs

	31 March 2005 £m
Impairment of empty property held for sale	(0.5)

See Note g for an explanation of the impairment charged in respect of empty properties.

s) Financial income and expenditure

	31 March 2005 £m
Financial income	
Expected return on pension scheme assets	4.6
Financial expenditure	
Interest charge on pension scheme liabilities	(5.1)

See Note j for a full explanation of the impact of the adoption of IAS 19.

37 TRANSITION TO IFRS continued

t) Income tax expense

	31 March 2005 £m
Income tax credit arising as a result of IFRS adjustments	0.2

The transition to IFRS has resulted in an alteration of the tax charge for the year as a result of the other adjustments made and discussed elsewhere in this document. Additionally, the method of calculation of deferred tax under IFRS is different to the approach under previous UK GAAP, however the impact of this on the tax charge is small.

u) Profit from discontinued operations

	31 March 2005 £m
Goodwill previously written off to reserves no longer recycled through income statement	3.6
Capitalised research and development written off on disposal	(0.6)
Credit arising from the adoption of IAS 19	2.7
Other adjustments	(0.1)
Related tax	(0.6)
	5.0

These adjustments relate to the profit from the Group's medical business which was sold in March 2005. The principal changes are explained below:

Under previous UK GAAP goodwill, which had been written off to reserves on the initial acquisition of an entity, was required to be written off through the income statement on its disposal. However, IFRS does not require such an adjustment.

Research and development carried out by the medical business prior to its disposal and capitalised under IFRS is written off by adjusting the profit on disposal.

On the sale of the medical business the employees ceased to be members of the Group's defined benefit pension scheme. Under IAS 19 a curtailment credit arises whereas a charge arose under previous UK GAAP.

A tax charge (relating to an adjustment to the carrying value of deferred tax) arises as a result of the adjustments explained above.

v) Earnings per share – total

	pence
Basic earnings per share	
UK GAAP	4.5
Effect of transition to IFRS	10.7
IFRS	15.2
Diluted earnings per share	
UK GAAP	4.5
Effect of transition to IFRS	10.6
IFRS	15.1

38 EXCHANGE RATES

The principal exchange rates to sterling used were:

Average translation rates	**2006**	2005
US Dollar	**1.79**	1.85
Euro	**1.46**	1.47
Yen	**202**	198

Year end rates	**2006**	2005
US Dollar	**1.73**	1.89
Euro	**1.43**	1.45
Yen	**205**	202

39 PARENT COMPANY

a) Company Balance Sheet as at 31 March 2006

	Notes	2006 £m	2005 As restated £m
Fixed assets			
Tangible assets	d	**1.3**	0.6
Investments in subsidiary undertakings	e	**66.7**	66.7
Other investments	e	**1.0**	1.1
		69.0	68.4
Current assets			
Debtors	f	**48.1**	48.7
Cash at bank and in hand		**26.8**	34.7
		74.9	83.4
Creditors: amounts falling due within one year			
Bank loans and overdrafts		**(4.4)**	(4.3)
Other creditors	g	**(18.0)**	(23.5)
		(22.4)	(27.8)
Net current assets		**52.5**	55.6
Total assets less current liabilities		**121.5**	124.0
Provision for liabilities and charges	h	**(0.1)**	(0.6)
Net assets employed		**121.4**	123.4
Capital and reserves			
Share capital	j	**2.4**	2.4
Share premium account	j	**20.1**	19.4
Other reserves	j	**7.7**	7.7
Profit and loss account	j	**91.2**	93.9
Equity shareholders' funds		**121.4**	123.4

The financial statements were approved by the Board of Directors on 13 June 2006 and signed on its behalf by:

Jonathan Flint
Director

Martin Lamaison
Director

39 PARENT COMPANY continued

b) Accounting Policies – Company under UK GAAP

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

In these financial statements the following new standards have been adopted for the first time:

- FRS 17 Retirement benefits
- FRS 20 Share-based payments
- FRS 21 Events after the balance sheet date
- FRS 23 The effects of changes in foreign exchange rates
- FRS 25 Financial instruments: presentation and disclosure
- FRS 26 Financial Instruments: measurement
- FRS 28 Corresponding amounts

The accounting policies under these new standards are set out below together with an indication of the effects of their adoption. FRS 28 Corresponding amounts has had no material effect as it imposes the same requirements for comparatives as hitherto required by the Companies Act 1985.

The corresponding amounts in these financial statements are, other than those covered by the exception permitted by FRS 25, restated in accordance with the new policies. FRS 25 permits the corresponding amounts not to be restated and the Company has adopted this approach. The financial instruments policy set out below provides further details of the current year and comparative year basis and of the change booked on 1 April 2005.

Basis of preparation

The financial statements have been prepared in accordance with applicable UK GAAP accounting standards and under the historical cost accounting rules. In accordance with S230(4) of the Companies Act 1985 the Company is exempt from the requirement to present its own profit and loss account.

Going concern

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

Taxation

The charge for taxation is based on the result 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 a straight-line basis over the life of the lease.

Fixed assets and depreciation

Depreciation is provided to write off the valuation or the cost less estimated residual value of tangible fixed assets by equal instalments over their estimated useful economic lives as follows:

Freehold buildings	50 years
Machinery and equipment	5 to 10 years
Computer equipment	4 years
Motor vehicles	4 years
Furniture and fittings	10 years

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. Freehold land is not depreciated.

Pensions

Post retirement benefits

The Company participates in a group wide pension scheme providing benefits based on final pensionable pay. The assets of the scheme are held separately from those of the Company. The Company is unable to identify its share of the underlying assets and liabilities of the scheme on a consistent and reasonable basis and therefore, as required by FRS 17 Retirement benefits, accounts for the scheme as if it were a defined contribution scheme. As a result, the amount charged to the profit and loss account represents the contributions payable to the scheme in respect of the accounting period. Refer to Note 24 for the additional disclosures required by FRS 17.

Foreign currencies

The Company 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 converted into sterling at the rate ruling on the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the rates ruling at the balance sheet date or at the appropriate forward contract rates. Exchange profits and losses arising from the above are dealt with in the profit and loss account.

Classification of financial instruments issued by the Company

Following the adoption of FRS 25, financial instruments issued by the Company are treated as equity (ie. forming part of shareholders' funds) only to the extent that they meet the following two conditions:

i) they include no contractual obligation upon the Company to deliver cash or other financial assets or to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable to the Company; and

ii) Where the instrument will or may be settled in the Company's own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the Company's own equity instruments or is a derivative that will be settled by the Company's exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments.

39 PARENT COMPANY continued

b) Accounting Policies – Company under UK GAAP continued

To the extent that this definition is not met, the proceeds of issue are classified as a financial liability. Where the instrument so classified takes the legal form of the Company's own shares, the amounts presented in these financial statements for called up share capital and share premium account exclude amounts in relation to those shares.

Finance payments associated with financial liabilities are dealt with as part of interest payable and similar charges. Finance payments associated with financial instruments that are classified as part of shareholders' funds (see dividend policy), are dealt with as appropriations in the reconciliation of movements in shareholders' funds.

The Company has taken advantage of the transitional arrangements of FRS 25 not to restate corresponding amounts in accordance with the above policy. The adjustment necessary to implement this policy has been made as at 1 April 2005 with the adjustment to the net assets, after tax, taken through the 31 March 2006 reconciliation of movements in shareholders' funds. Corresponding amounts for 31 March 2005 are presented and disclosed in accordance with the requirements of FRS 4 (as applicable at 31 March 2005).

There is no material difference between the 31 March 2005 and 31 March 2006 bases of accounting.

In the year ended 31 March 2006 hedging instruments and hedged items are accounted for separately in the balance sheet. Gains and losses in both are included in profit for the year when they arise (fair value hedges) or when the hedged transaction occurs having first recorded those on the hedging instrument in equity (cash flow hedges, to the extent effective). In the year ended 31 March 2005 hedging instruments were not recognised and hedged items were held at cost (amortised as appropriate) without any adjustment in respect of the hedged risk. On 1 April 2005 the hedged items and hedging instruments are brought separately on to the balance sheet in accordance with the year ended 31 March 2006 policy. The cash flow statement is unaffected by this change in accounting policy.

Own shares held by ESOP trust

Transactions of the Group-sponsored ESOP trust are included in the Group financial statements. In particular, the trust's purchase of shares in the company are debited directly to equity.

Share-based payments

The share option programme allows employees to acquire shares of the Company. The fair value of options granted after 7 November 2002 and those not yet vested as at 1 January 2005 is recognised as an employee expense with a corresponding increase in equity. The fair value is measured at grant date and spread over the period during which the employee become unconditionally entitled to the options. The fair value of the options granted is measured using an option pricing mode, taking into account the terms and conditions upon which the options were granted. The amount recognised as an expense is adjusted to reflect the actual number of share options that vest except where forfeiture is only due to share prices not achieving the threshold for vesting. The effect in the current and preceding years is not material.

In the year ended 31 March 2005, share-based payments were accounted for under UITF Abstract 17 (revised) Employees share schemes. The prior year charge of £2.7m has been written back to reserves.

Dividends on shares presented within shareholders' funds

Dividends unpaid at the balance sheet date are only recognised as a liability at that date to the extent that they are appropriately authorised and are no longer at the discretion of the Company. Unpaid dividends that do not meet these criteria are disclosed in the notes to the financial statements.

Financial guarantee contracts

Where the Company enters into financial guarantee contracts to guarantee the indebtedness of other companies within its group, the Company considers these to be insurance arrangements, and accounts for them as such. In this respect, the Company treats the guarantee contract as a contingent liability until such time as it becomes probable that the Company will be required to make a payment under the guarantee.

39 PARENT COMPANY continued

c) Profit for the Year

The Company's profit for the financial year was £0.1m (2005 £6.9m).

The auditor's remuneration comprised £60,000 (2005 £58,000) for statutory audit, £28,000 (2005 £12,000) for IFRS advisory work and £5,000 for tax advice. Additionally in 2005 the auditors were paid £23,000 for vendor due diligence, £12,000 for IFRS advisory work and £11,000 for other audit services.

The average number of people employed by the Company (including Directors) during the year was 45 (2005 47). All of these individuals were involved in administration.

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

	2006 £m	2005 £m
Wages and salaries	**2.2**	2.1
Social security costs	**0.2**	0.3
Other pension costs	**0.3**	0.3
	2.7	2.7

Full details of the emoluments paid to Directors can be found in the Directors' Remuneration Report on pages 32 to 37.

d) Tangible Fixed Assets

	Property £m	Other fixed assets £m	Total £m
Cost			
Balance at 1 April 2005	0.3	2.1	2.4
Additions	–	0.9	0.9
Disposals	–	(0.4)	(0.4)
Balance at 31 March 2006	**0.3**	**2.6**	**2.9**
Depreciation			
Balance at 1 April 2005	0.1	1.7	1.8
Charge for year	–	0.2	0.2
Eliminated on disposals	–	(0.4)	(0.4)
Balance at 31 March 2006	**0.1**	**1.5**	**1.6**
Net book value			
At 31 March 2005	0.2	0.4	0.6
At 31 March 2006	**0.2**	**1.1**	**1.3**

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

	2006 £m	2005 £m
Property		
Freehold buildings	**0.2**	0.2
Other fixed assets		
Computer equipment	**1.1**	0.4

39 PARENT COMPANY continued

e) Investments

	Shares in subsidiary undertakings £m	Other investments £m	Total £m
Cost			
Balance at 1 April 2005	66.7	1.1	67.8
Additions	–	0.1	0.1
Balance at 31 March 2006	**66.7**	**1.2**	**67.9**

Amortisation

	Shares in subsidiary undertakings £m	Other investments £m	Total £m
Impairment	–	0.2	0.2
Balance at 31 March 2006	**–**	**0.2**	**0.2**
Net book value at 31 March 2005	66.7	1.1	67.8
Net book value at 31 March 2006	**66.7**	**1.0**	**67.7**

Other investments at 31 March 2006 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	18.9%
Oxford BioSignals Limited	Advanced signal processing and neural network technology delivering advanced health monitoring solutions to medical and engineering markets	7.0%
Oxford Diffraction Limited	X-ray diffraction systems and ancillary products for chemical crystallography and protein structure determination	23.0%

Details of the subsidiary investments are given in Note 34.

f) Debtors

	2006 £m	2005 £m
Amounts falling due within one year:		
Amounts owed by subsidiary undertakings	**47.2**	47.6
Other debtors	**0.3**	0.5
Prepayments and accrued income	**0.2**	0.2
	47.7	48.3
Amounts falling due after one year:		
Deferred tax	**0.4**	0.4
	48.1	48.7

g) Creditors: Amounts Falling due withing One Year

	2006 £m	2005 As restated £m
Trade creditors	**0.5**	0.8
Amounts owed to subsidiary undertakings	**15.8**	21.9
Corporation tax	**0.5**	0.2
Tax, social security and sales related taxes	**0.6**	–
Accruals and deferred income	**0.6**	0.6
	18.0	23.5

39 PARENT COMPANY continued

h) Provisions for Liabilities and Charges

	Vacant lease provision £m	Chief Executive replacement provision £m	Total £m
At beginning of the year	0.1	0.5	0.6
Utilised in the year	–	(0.5)	(0.5)
Balance at 31 March 2006	**0.1**	**–**	**0.1**

The provision relates to a vacant leasehold property for which the Company is seeking a sub-tenant. The lease expires in September 2012.

i) Deferred Tax

	2006 £m	2005 £m
Deferred tax asset		
At beginning of the year	**0.4**	0.3
Transfer to profit and loss account	**–**	0.1
	0.4	0.4

The amounts of deferred tax assets, representing the full potential liability, are as follows:

	Recognised		Unrecognised	
	2006 £m	2005	**2006 £m**	2005 £m
Excess of depreciation over corresponding capital allowances	**0.4**	0.3	**–**	–
Other timing differences	**–**	0.1	**0.1**	–
	0.4	0.4	**0.1**	–

A deferred tax asset has been recognised in the accounts relating to short-term timing differences and accelerated capital allowances. The Company has recognised the assets only to the extent that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

j) Reserves and Reconciliation of Movement in Shareholder's Funds

	Share capital £m	Share premium account £m	Capital redemption reserve £m	Other reserves £m	Profit and loss account £m	Total £m
Balance at 1 April 2005	2.4	19.4	0.1	7.6	91.0	120.5
Prior year adjustment	–	–	–	–	2.9	2.9
At beginning of the year as restated	2.4	19.4	0.1	7.6	93.9	123.4
Retained profit for the year	–	–	–	–	0.1	0.1
Premium of issued shares	–	0.7	–	–	–	0.7
Shares awarded to share option holders	–	–	–	–	0.1	0.1
Dividends paid	–	–	–	–	(2.9)	(2.9)
Balance at 31 March 2006	**2.4**	**20.1**	**0.1**	**7.6**	**91.2**	**121.4**

The prior year adjustment relates to the reversal of the dividend payable at 31 March 2005 and arises due to the adoption of FRS 21.

39 PARENT COMPANY continued

k) Pension Commitments

The Company and its employees contribute to the Oxford Instruments Pension Scheme, a defined benefit scheme. Contributions are based on pension costs across the Group as a whole. The assets of the Scheme are held in a separate trustee administered fund.

The Oxford Instruments Pension Scheme was closed to new members from 1 April 2001. Since this date new employees have been invited to join the Oxford Instruments Stakeholder Plan, a defined contribution scheme. The company makes contributions to this scheme.

The Directors do not believe it possible to allocate the assets and liabilities of the scheme to individual group members on a consistent and responsible basis. Accordingly, under FRS 17 the Company is exempt from recognising its share of the net pension deficit and accounts for the scheme as though it were a defined contribution scheme.

The latest actuarial valuation was carried out at 31 March 2003 and updated to 31 March 2006 on an FRS 17 basis by a qualified independent actuary.

The major assumptions used by the actuary were (in nominal terms):

	At 31 March 2006 %	At 31 March 2005 %
Rate of increase in salaries	**4.0**	3.9
Rate of increase in pensions in payment	**2.8**	2.7
Discount rate	**4.9**	5.4
Inflation assumptions	**3.0**	2.9

	Long term Rate of Return Expected at 31 March 2006 %	**Value at 31 March 2006 £m**	Long term Rate of Return Expected at 31 March 2005 %	Value at 31 March 2005 £m	Long term Rate of Return Expected at 31 March 2004 %	Value at 31 March 2004 £m
Equities	**7.5**	**66.7**	8.0	56.1	8.0	49.7
Corporate bonds	**4.9**	**8.4**	N/A	–	5.6	10.2
Gilts	**4.2**	**26.9**	4.7	23.6	4.7	10.3
Property	**6.0**	**10.6**	6.5	8.8	6.5	7.6
Cash and other assets	**4.5**	**0.7**	4.0	1.6	4.0	3.0
Absolute return fund	**7.0**	**10.0**	7.5	8.5	7.5	8.0
Total market vale of assets		**123.3**		98.6		88.8
Present value of scheme liabilities		**(173.2)**		(139.1)		(124.3)
Deficit in the scheme		**(49.9)**		(40.5)		(35.5)
Related deferred tax asset*		**15.0**		12.2		10.7
Net pension liability		**(34.9)**		(28.3)		(24.8)

*Based on 30% rate of tax.

The contributions paid by the Company were £0.1m (2005 £0.2m).

l) Guarantees

The Company has given a guarantee to the pension scheme in respect of the liability of its UK subsidiaries to the pension scheme.

m) Commitments

	2006 £m	2005 £m
Operating leases which expire:		
Within one year	**–**	–
In the second to fifth years inclusive	**0.1**	0.1
Over five years	**–**	–
	0.1	0.1

There were no capital commitments as at 31 March 2006 (2005 £nil).

n) Subsequent Events

See Note 36 for details of dividends paid or declared after the balance sheet date.

PAGES 94 TO 97 ABOUT THE ANNUAL GENERAL MEETING ARE IMPORTANT

If you are in any doubt as to what action you should take, you are recommended to consult your stockbroker, bank manager, solicitor, accountant or other independent professional adviser authorised under the Financial Services and Markets Act 2000. If you have recently sold or transferred all your shares in Oxford Instruments plc please pass this document and the accompanying Form of Proxy to the purchaser or transferee, or to the agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

Notice is hereby given that the forty-second Annual General Meeting of Oxford Instruments plc will be held at 2.30pm on 26 September 2006 at the offices of Oxford Instruments NanoScience, Tubney Woods, Abingdon, Oxon, OX13 5QX to transact the following business:

1 Directors' Report and Accounts

To receive and adopt the Reports and Financial Statements for the year ended 31 March 2006 and the Report of the Auditors thereon.

2 Final dividend

To declare the final dividend for the year to 31 March 2006.

3 Directors' Remuneration Report

To approve the Directors' Remuneration Report set out on pages 32 to 37 of the Reports and Financial Statements for the year ended 31 March 2006.

4 Re-election of Directors

(a) To re-elect Nigel Keen who retires by rotation but, being eligible, will be proposed for re-election.
(b) To re-elect Mike Hughes who retires by rotation but, being eligible, will be proposed for re-election.
(c) To re-elect Peter Morgan who, having attained the age of 70 years on 9th May 2006, will be proposed for re-election.
(d) To re-elect Mike Brady who is required to retire annually as he has been a Non-Executive Director for more than 9 years.
(e) To re-elect Steve Parker who, having been appointed a Director since the date of the last Annual General Meeting, will be proposed for re-election.
(f) To re-elect Charles Holroyd who, having been appointed a Director since the date of the last Annual General Meeting, will be proposed for re-election.
(g) To re-elect Kevin Boyd 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 £463,070.

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 £121,846.

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 4,873,859 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 Organisation 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 2007.

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).

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 24 September 2006 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 24 September 2006 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; and
(iii) 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 1 to 9 inclusive to be proposed at the Annual General Meeting, as they propose to do so in respect of their beneficial shareholdings.

By Order of the Board
Martin Lamaison Company Secretary
21 July 2006

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 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 Reports and Financial Statements for the year ended 31 March 2006.

Resolution 2 – Shareholders will be asked to approve payment of a final dividend of 6.0p per ordinary share for the year ended 31 March 2006. If approved at the Annual General Meeting, the dividend will be paid on 27 October 2006 to shareholders registered at the close of business on 29 September 2006.

Resolution 3 – Shareholders will be asked to approve the adoption of the Directors' Remuneration Report for the year ended 31 March 2006. Under the Directors' Remuneration Report Regulations 2002, Directors are required to ask shareholders to vote on the Directors' Remuneration Report (shown on pages 32 to 37 of the Annual Report and Accounts 2006). The Directors, who have unanimously endorsed the Directors' Remuneration Report, consider that asking the shareholders to vote on this Report facilitates accountability and transparency.

Resolutions 4 (a), (b) and (c) – The Company's Articles of Association state that at each Annual General Meeting, the following Directors must retire from office: (i) any Director who has held office for three years or more since his last election or for whom the Meeting is the third Annual General Meeting since he was last elected, and (ii) one third of the Directors at the commencement of the Annual General Meeting. All Directors take it in turn to retire in this way. This gives shareholders the chance to confirm their re-appointments. At the 2006 Annual General Meeting Nigel Keen and Mike Hughes are retiring under this provision and, being eligible, are standing for re-election. Peter Morgan, although he retired by rotation and was re-elected at the 2005 Annual General Meeting, is included in the one third of Directors required to retire this year, having attained the age of 70 since the last Annual General Meeting by reason of age (see below). Being eligible, he also is standing for re-election.

Nigel Keen, Chairman, was first elected at the Annual General Meeting in 1999, having been appointed by the Board as an Independent Non-Executive Director in February of that year. He is Chairman of the Remuneration and Nomination Board Committees. Mike Hughes is an Independent Non-Executive Director and joined the Board in 2004. He is a member of the Audit, Remuneration and Nomination Board Committees. The formal performance evaluation has shown that their performances are still effective and the rest of the Board feel that they have demonstrated commitment to the role and that each should be proposed for re-election.

Peter Morgan is an Independent Non-Executive Director and also joined the Board in 1999. He is Chairman of the Audit Committee and a member of the Remuneration and Nomination Board Committees.

Having attained the age of 70 years on 9 May 2006, he retires in accordance with the Act and the Combined Code and is included within the one third of Directors at the commencement of the Meeting required by the Articles of Association of the Company to retire by rotation. The Chairman's performance evaluation has shown that Peter Morgan's performance is still effective. The Board feel that he has demonstrated commitment to the role and that he should be proposed for re-election.

In reviewing the recommendations of the Nomination Committee concerning these re-elections, the Board has concluded that each of the Non-Executive Directors in question 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.

Resolution 4 (d) – Mike Brady is Deputy Chairman and Senior Independent Director and as of June 2006 had served on the Board for eleven 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 continue to 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 of 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.

Resolutions 4 (e), (f) and (g) – Steve Parker, Charles Holroyd and Kevin Boyd have been appointed as 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 each of them is in the best interests of the Company as their skills, experience and knowledge will enhance and maintain an effective Board. Their appointment was recommended by the Nominations Committee following a thorough evaluation process.

The biographical details of all the Directors standing for re-election are set out on page 18 of the Annual Report and Accounts 2006.

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 £463,070. This represents the unissued ordinary share capital on 31 March 2006. 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 26 December 2007. 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 2,436,930 which represents 5% of the issued ordinary share capital on 31 March 2006. 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 26 December 2007.

Resolution 8 – This Special Resolution is a renewal of the authority granted to Directors at the 2005 Annual General Meeting. It allows the Company to buy back up to 4,873,859 of its issued ordinary shares on the stock market. This is equal to 10% of the Company's issued share capital on 31 March 2006. 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 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 26 December 2007 whichever is earlier.

Resolution 9 – The Company did not make any donations to political parties in the European Union 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 and Donations 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 would last until the conclusion of the Company's Annual General Meeting in 2007.

	2002 £m	2003 £m	2004 £m
Profit and loss account			
Group and share of joint venture turnover	260.3	231.4	193.1
Less share of joint venture turnover	(46.6)	(44.1)	(10.8)
Group turnover	213.7	187.3	182.3
Group operating profit/(loss) before goodwill, exceptional items and discontinued businesses**	6.7	6.8	7.9
Exceptional items	–	(2.1)	(1.6)
Discontinued businesses before goodwill**	(1.1)	(0.5)	0.1
Goodwill amortisation	(0.3)	(0.3)	(0.7)
Group operating profit	5.3	3.9	5.7
Group share of operating profit/(loss) of joint venture	5.2	1.6	(0.2)
Total operating profit	10.5	5.5	5.5
Loss on sale of business before goodwill	–	(1.5)	–
Profit on disposal of investment before goodwill	–	–	6.8
Profit on disposal of properties	3.0	–	–
Goodwill previously written off	–	–	(0.2)
Net interest payable	(1.5)	(1.6)	(0.2)
Profit on ordinary activities before tax	12.0	2.4	11.9
Taxation	(2.7)	(1.2)	(1.9)
Profits attributable to shareholders	9.3	1.2	10.0
Balance sheet			
Intangible assets – goodwill	4.4	2.7	2.6
Tangible fixed assets	38.9	35.6	32.6
Investments	5.7	4.1	1.6
Stocks	48.5	36.5	28.5
Debtors	67.4	61.1	58.9
Other creditors	(59.7)	(48.8)	(47.5)
Net current assets, excluding net cash/(debt)	56.2	48.8	39.9
Cash at bank and on short term deposits	4.8	6.4	23.2
Bank loans and overdrafts	(8.8)	(3.1)	(2.5)
Net (debt)/cash	(4.0)	3.3	20.7
Creditors: amounts falling due after one year	–	–	–
Provisions for liabilities and charges	(6.0)	(5.3)	(5.3)
Net assets employed	95.2	89.2	92.1
Equity shareholders' funds*	95.2	89.2	92.1
Cash flow			
Net cash inflow from operating activities	6.6	14.9	17.8
Interest and dividends, paid and received	(2.2)	(2.6)	(4.0)
Taxation	(0.2)	(2.0)	(2.4)
Investing activities	0.1	(3.2)	6.1
Net cash inflow before management of liquid resources and financing	4.3	7.1	17.5
	pence	pence	pence
Per ordinary share			
Earnings	19.9	2.6	21.3
Earnings from continuing operations before exceptional items**	14.6	9.5	25.7
Dividends	8.4	8.4	8.4
Employees			
Average number of employees	1,773	1,674	1,537

* After deducting investment in own shares in 2004.
** After adjusting for disposal of Medical business in 2004.

	2005 £m	**2006 £m**
Income statement		
Revenue	154.8	**167.2**
Trading profit	7.4	**4.4**
Other operating income	0.2	**2.0**
Amortisation of acquired intangibles	(1.3)	**(0.2)**
Restructuring and other non-recurring costs	(6.2)	**(6.7)**
Operating profit/(loss)	0.1	**(0.5)**
Net financing costs	–	**(0.4)**
Profit/(loss) before taxation	0.1	**(0.9)**
Income tax expense	(1.7)	**(2.5)**
Loss after taxation but before gain/(loss) on discontinued operations	(1.6)	**(3.4)**
Profit from discontinued operations, net of tax	7.2	**–**
Profit/(loss) for the period	5.6	**(3.4)**
Balance sheet		
Property, plant and equipment	23.0	**23.4**
Intangible assets	12.5	**15.6**
Investments	1.6	**1.0**
Deferred and current tax	14.1	**18.1**
Inventories	23.9	**27.1**
Trade and other receivables	46.5	**45.4**
Held for sales assets	5.4	**5.0**
Trade and other payables	(44.3)	**(39.0)**
Net current assets excluding net cash	82.7	**96.6**
Cash and cash equivalents	28.6	**12.7**
Bank borrowings	(2.1)	**(2.9)**
Net cash	26.5	**9.8**
Provisions and other items	(7.9)	**(6.6)**
Retirement benefit obligations	(43.3)	**(53.4)**
Net assets employed	58.0	**46.4**
Capital and reserves attributable to the Company's equity holders	58.0	**46.4**
Cash flow		
Net cash from operating activities	5.9	**(8.0)**
Net cash from investing activities	15.3	**(7.0)**
Net cash from financing activities	(14.7)	**(1.2)**
Net increase/(decrease) in cash equivalents	6.5	**(16.2)**
	pence	**pence**
Per ordinary share		
Earnings – continuing	(3.0)	**(7.2)**
Adjusted earnings*	13.9	**9.1**
Dividends – excluding special dividend	8.4	**8.4**
Dividends – special	25.0	**–**
Employees		
Average number of employees	1,325	**1,412**

* Before other operating income, amortisation of acquired intangibles, restructuring and other non-recurring costs and the result of the restructured magnet business.

Financial calendar

31 March 2006	Financial year end
13 June 2006	Announcement of preliminary results
26 September 2006	Annual General Meeting
27 September 2006	Ordinary shares quoted ex-dividend
29 September 2006	Record date for final dividend
27 October 2006	Payment of final dividend
Mid November 2006	Announcement of half year results
31 March 2007	Financial year end
Early April 2007	Payment of interim dividend

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 0208 639 2342

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
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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,
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Registered number: 775598
Registered in Great Britain

Website – www.oxford-instruments.com

The Oxford Instruments plc website allows users of the site to see our latest news, to check out a product range, to look for a job or simply find out about our company – and move between all these in just a few clicks. In addition, shareholders can browse the Investor Information section, find out who to contact regarding enquiries and share dealings, download recent trading reports, and obtain the latest share price. This and other developments are part of a continuing move towards improving communications between Oxford Instruments plc and its shareholders.

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 2006

Size of shareholding	Number of holders	% of total	Total holding	% of total
Up to 5,000 shares	2,850	92.0	1,863,635	3.8
5,001 to 50,000 shares	175	5.7	2,611,586	5.4
50,001 to 200,000 shares	44	1.4	4,066,733	8.3
Over 200,000 shares	29	0.9	40,196,638	82.5
Total	3,098	100.0	48,738,592	100.0

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