# Oxford Instruments plc

Report and Financial Statements 2012

www.oxford-instruments.com

OXFORD INSTRUMENTS

*The Business of Science®*

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**We are a leading provider of high technology tools and systems for research and industry. We design and manufacture equipment that can analyse and manipulate matter at the atomic and molecular level**

| 2006 | 2007 | 2008 |
|---|---|---|
| 2006/07 Revenue £161.6m | 2007/08 Revenue £175.6m | 2008/09 Revenue £206.5m |
| 2006/07 Adjusted operating profit £8.3m | 2007/08 Adjusted operating profit £10.6m | 2008/09 Adjusted operating profit £13.1m |
| • Announced 5 year plan to double the size of the business through organic and acquisitional growth and to achieve an increase in ROS of 10% percentage points when compared to 2005/6 | • Acquired WAS Analytical (Germany) and Vericold (Germany) | • Restructured the business to improve performance<br>• Acquired TDI (US) and LINK Analytical (Sweden) |
| | • **10th Queen's Award for Enterprise: innovation** | • **Best Technical Company at the PLC Awards** |

# **Our Journey** We are now in our sixth consecutive year of growth, which started in 2006

- Entered FTSE 250
- PLC of the Year Award

2009/2010 Revenue
£211.5m

2009/2010 Adjusted operating profit
£14.7m

- 5 year plan on track despite downturn in industrial markets
- Received largest order for £38m from ITER for superconducting wire
- **50 years anniversary of foundation of Oxford Instruments**

2010/11 Revenue
£262.3m

2010/11 Adjusted operating profit
£28.1m

- Completion of 5 year plan; revenue doubled and ROS increased to 10.7%
- **11th Queen's Award for Enterprise: innovation**

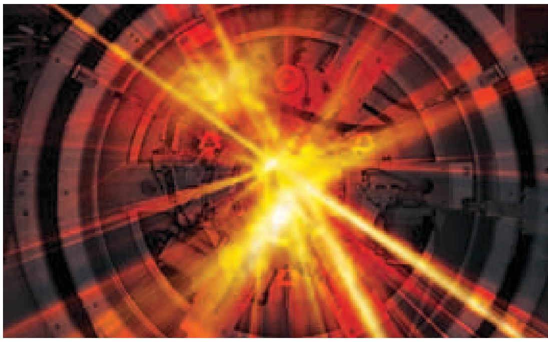
2011/12 Revenue
£337.3m

2011/12 Adjusted operating profit
£42.1m

- First year of the next phase of our strategy for growth, the 14 Cubed Plan to achieve 14% CAGR, 14% ROS by 2014
- Acquired Omicron Nanotechnology (Germany), Omniprobe Inc (US), Platinum Medical Imaging (US)
- **12th Queen's Award for Enterprise: innovation**

2009 2010 2011 2012


UV touch OES metals analyser


Magnet abstract

# Chairman's Statement The Group is now performing more strongly than at any time in its history and was admitted into the FTSE250 index in September 2011

Adjusted earnings per share **+48%**

61.6p

Dividend per share **+11.1%**

10.0p

Omniprobe Gas Injector tool for nano-fabrication and modification

Oxford Instruments delivers shareholder value by providing our customers with the most advanced tools and services. Our customers use these products to advance the frontiers of science, manufacture innovatively and ensure the quality of industrial processes. The diversity of our products and markets, our clear customer focus, our culture of innovation and our commitment to attracting the very best talent in the industry has continued to drive the growth of the business. The Group is now performing more strongly than at any time in its history and was admitted into the FTSE250 index in September 2011.

This strong performance in the first year of our 14 Cubed three year plan has been built around organic growth, efficiency improvements and a successful* acquisition programme. Our healthy product pipeline and exposure to growing markets has yielded good organic revenue growth with further improvement in operating margins. The integration of the three acquisitions we made in the year is proceeding to plan and each is making a positive contribution to our business.

The Group is recommending a final dividend of 7.23 pence, an increase of 11.6% over the prior year bringing the total for the year to 10.0 pence.

The success reflected in these results has been fostered by our culture of inclusivity and our ability to bring together skills and ideas from across the business to drive innovation and the delivery of new products. These results are a credit to all our people. I thank them on behalf of the Board for their hard work and commitment.

We are aware that we are operating in uncertain times. We have the right people in place to maximise the opportunities and tackle the challenges of the coming years. As we enter the second year of our 14 Cubed Plan, it is our intention to continue to deliver value for all our stakeholders with the wholehearted care, passion and commitment for which Oxford Instruments is renowned.

**Nigel Keen**
Chairman

12 June 2012

***see Our Strategy on page 8**

## OUR VALUES

# INCLUSIVE

We listen and engage with customers, colleagues, shareholders and partners for mutual success.

# TRUSTED

We build long term relationships based on integrity, trust and respect.

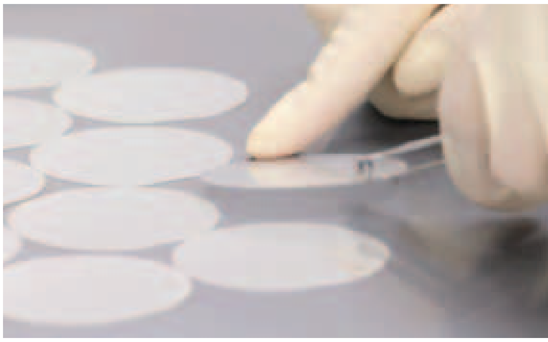
# INNOVATIVE & PROGRESSIVE

We bring skill, experience and openness to new ideas to address the needs of the 21st Century.

# WHOLE-HEARTED

We approach what we do with passion, with care and with pace.


Superconducting wire


Wafer processing

c.1900

people worldwide

**Our Business** is structured as three segments which reflect our targeted markets and technologies. This means we can focus our expertise and our innovation on offering our customers high quality products and service

## NANOTECHNOLOGY TOOLS

### High performance technology products for research and industry

**NanoAnalysis**
Leading-edge tools that enable materials characterisation and sample manipulation at the nanometre scale.

**NanoScience**
World's leading supplier of systems for nano-characterisation and measurement at low temperatures and high magnetic fields.

**Plasma Technology**
Tools and processes for the fabrication of nanostructures.

**Omicron NanoTechnology**
The most advanced tools for scientists researching at the frontiers of nanotechnology.


For more information, see Operating Review, page 12

## INDUSTRIAL PRODUCTS

### Analytical systems and components for research and industry

**Industrial Analysis**
High quality instruments for materials identification and thickness gauging analysis essential for quality control.

**Superconducting Wire**
World leader in the provision of high performance superconducting wire for industry and research.

**Austin**
Specialises in high vacuum products, helium gas coolers and services for the semiconductor, research, life science and energy industries.

**Magnetic Resonance**
Benchtop magnetic resonance analysers for quality assurance.


For more information, see Operating Review, page 14

## SERVICE

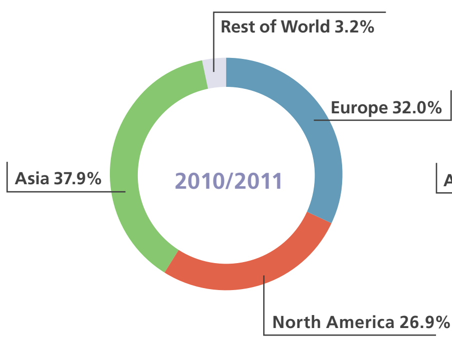
### World-wide network of service and support

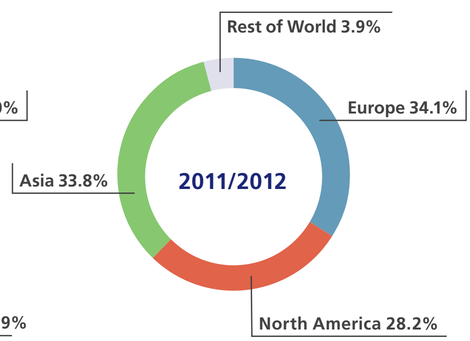
- Third party servicing and support to operators of Magnetic Resonance Imaging (MRI) and Computerised Tomography (CT) scanners.
- Supply of refurbished MRI/CT systems, x-ray tubes, and other consumables for healthcare customers in North America.
- Full range of spares, consumables and accessories for all product ranges.
- Service elements of Nanotechnology Tools and Industrial Products sectors.


For more information, see Operating Review, page 15

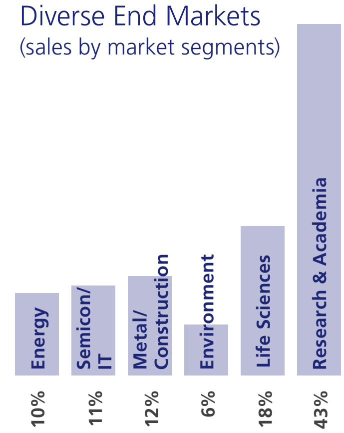
**Our vision** is to pursue responsible development and deeper understanding of the world through science and technology

## Geographies
(sales by geographies)

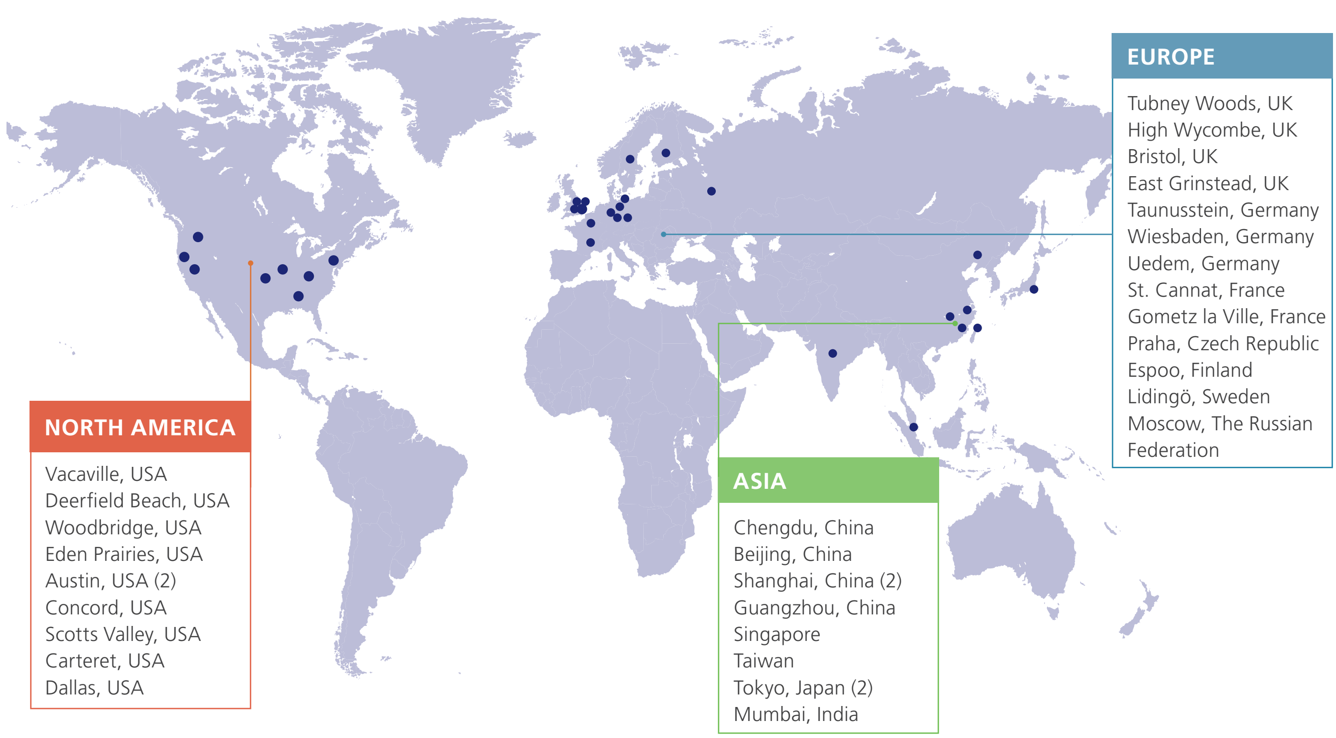



## Diverse End Markets
(sales by market segments)




## Our offices around the world



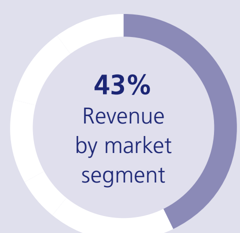
# **Our Markets** and applications serve a broad range of industries and geographies. The diverse customer base provides resilience to macro-economic pressures, with our largest customer representing less than 7% of sales. The diverse geographies, especially exposure to emerging markets supports our strategy for growth

Total revenues from Asia

33.8%

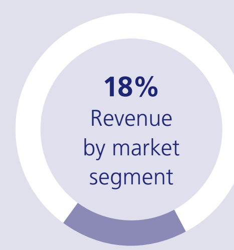
## RESEARCH & ACADEMIA

Our largest market sector includes research into nanotechnology applications, new materials, data protection, pharmaceuticals, security, renewable energies, and next generation quantum computing.



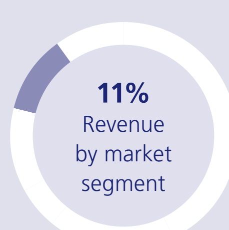

## LIFE SCIENCES

A growing market sector includes the support and service of MR and CT imaging equipment and the supply of superconducting wire for MRI scanners.



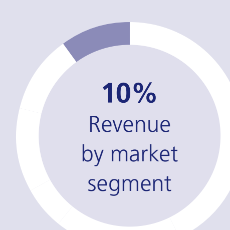

## SEMICONDUCTORS/IT

A market that is growing significantly in Asia and includes semiconductor electronics, Micro Electro Mechanical Systems, (MEMS), compound semiconductor materials, thin film and particle analysis.




## ENERGY

New forms of energy are attracting significant investment from both government and the private sector. We are involved in the search for sustainable energy (ITER), solar technologies, oil and gas exploration, and superconductor materials.




Deep silicon etch tools

## ENVIRONMENT

As one of the major challenges of the 21st Century, preservation of our environment is a key driver. Our markets include tools for:

- high brightness LEDs
- detection of hazardous substances in soil
- compliance and Quality Control testing for RoHS and WEEE
- detection of asbestos fibres
- recycling
- petrochemicals
- agriculture and food


## METALS/CONSTRUCTION

Our customers span global industries from metals, alloy manufacturing, steel foundries and scrap recycling to automotive, aerospace, precious metals and cement.


X-MET7000 hand-held analyser

## INDUSTRIAL PRODUCTS: X-MET7000 handheld analyser

Increased demand for raw materials such as copper, zinc and nickel leads to an increase in demand for accurate scrap sorting. Scrap sorters and recyclers need rugged and accurate materials analysis for the rapid identification of alloys enabling them to correctly value scrap at the point they buy and sell.

Oxford Instruments X-MET7000 handheld analyser uses XRF (X-ray fluorescence) to identify the presence of key metal elements in only a few seconds. The X-MET is an easy to use, robust tool which clearly displays the types of metal present in a sample on a clear, colour display. The user simply points the analyser at the scrap and pulls the trigger.

# **Our Strategy** to grow the business exploits the Oxford Instruments brand, our superior technology and exposure to diverse markets where demand is growing. We combine this with an ability to implement economies of scale and efficiency improvements, a focused acquisition strategy and a world class R&D programme driven by our highly skilled and experienced people

14 Cubed Plan

## THE 14 CUBED PLAN

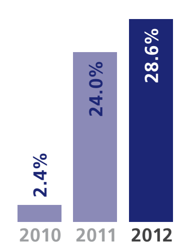
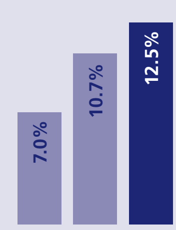
Having made substantial progress during our five year plan, the foundations for long term profitable growth were in place. In 2011/12 we focused on the next phase of growth with the introduction of the 14 Cubed Plan. This plan calls for annual compound revenue growth of 14% and a return on sales of 14% to be achieved by 2014. The 14 Cubed Plan is driven by three elements; strong organic growth, continuous efficiency improvements and targeted acquisitions. These will each contribute to our targets for growth and margin improvement.

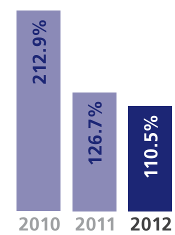
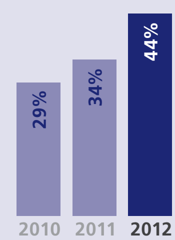
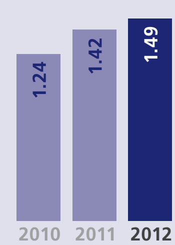
The 14% compound growth rate is planned to be achieved primarily through organic growth. We believe that this growth level can be obtained because of the valued position of the Oxford Instruments brand in our high technology markets, our exposure to the growing markets of Asia and our customer targeted R&D programme.

This organic growth will be supplemented by targeted acquisitions and the three made in 2011 are already contributing to our growth. The organic and acquisition growth strands of our strategy are supported by an internal efficiency programme which seeks both to increase revenues (by boosting our customer satisfaction levels) and to manage costs. This programme is built around five key goals:

- **Delivering for shareholders**
- **Liberating cash**
- **Inventing the future**
- **Realising the Brand**
- **Adding personal value**

Each of these goals is measured by key performance indicators against which we calibrate our progress, enabling us to monitor momentum at both divisional and Group level on a regular basis.

| FINANCIAL GOAL | What we measure | Why we measure | How we performed |
|---|---|---|---|
| **To deliver shareholder return through growth in turnover and margin** | • Revenue growth | • Tracks our performance on our growth strategy |   |
| | • Net return on sales | • Tracks our performance on our Profitability strategy |   |

| STRATEGIC PRIORITIES | What we measure | Why we measure | How we performed |
|---|---|---|---|
| **Liberating Cash** | • Cash conversion from profit[1] | • Monitors our use of Fixed Assets, Working Capital and R&D |  |
| **Inventing the Future** | • Proportion of revenue coming from products launched or acquired in the previous 3 years | • Measures the effectiveness of our R&D programmes |  |
| **Realising the Brand** | • Net Promoter Score®[2] | • Measures Customer Feedback |  |
| **Adding Personal Value** | • Value Add Index – (Adjusted Operating Profit + Employment Costs)/ Employment Costs | • Measures efficiency |  |

[1] Cash conversion is defined as the ratio of cash generated to adjusted operating profit (see Income Statement). Cash generated is calculated as adjusted operating profit plus depreciation and amortisation, minus capital expenditure on property, plant and equipment and research and development, and adjusted for movements in working capital. A cash conversion of greater than 100% shows that cash generated by the Group exceeds the adjusted operating profit for the year.

[2] The Net Promoter Score is a metric which was introduced Group wide during 2011. No data exists for earlier years. It is compiled by asking customers at the completion of a piece of service work whether they would recommend Oxford Instruments to a friend or colleague. Customers give a score between zero and ten. Those customers who score nine or ten are promoters, those customers who score seven or eight are neutral and customers who score six or less are detractors. The net promoter score is the difference between the numbers of promoters and the number of detractors (both expressed as a percentage of the number of replies received). The score can range between –100 (no customers are promoters) and +100 (all customers are promoters). A positive score indicates that the company has fewer detractors than promoters. The 2011 score was obtained from a survey of our customers at a single point in time. During 2012 we initiated a process of surveying customers (on a rolling basis) immediately after the completion of a piece of work and we now use this data as the basis for our published KPI.

For further discussion of our strategy, see page 10

# Chief Executive's Statement Innovation remains at the core of the Group's culture... our strong performance is underpinned by continued investment in R&D which increased this year by 29%

Order in-take +23.5%

£337.8m

Order Book +18.6%

£136.8m

Sales per Head +5%

£183.9k

It is now a year since we announced our 14 Cubed Plan to achieve compound annual growth of 14% and a return on sales of 14% by 2014. Achievement of our strategic objective is driven by three elements; organic growth through innovation, continuous efficiency improvements and targeted acquisitions, all of which have contributed to our growth and margin improvement during the year.

Our order in-take was £337.8 million (2011: £273.5 million) and the order book for future delivery now stands at £136.8 million (2011: £115.3 million). Our two principal end market areas, research and industrial, both remain robust. Revenues rose to £337.3 million, an increase of 28.6% of which 15.1% was organic growth. Adjusted profit before tax grew to £42.0 million (2011: £26.2 million) which equates to an adjusted operating profit return on sales of 12.5% (2011: 10.7%). Adjusted earnings per share rose to 61.6 pence (2011: 41.5 pence) and the Group ended the year with a net positive cash balance of £35.1 million (2011: £13.1 million).

The three acquisitions we made in the year are all performing to expectations. Omicron Nanotechnology, acquired in June, has enabled us to extend our offering in the Nanotechnology Tools sector and good progress has been made integrating it into the Group. Omniprobe, also acquired in June, has contributed to the good performance of the NanoAnalysis business and has a strong pipeline of new products due for launch this year. The Platinum Medical Imaging business, acquired in November, has been able to exploit the value of the Oxford Instruments brand to win new customers and improve its business performance.

We continued to benefit from growth across our major geographies with Europe up 37.4%, North America up 30.6% and Asia up 14.5%. Our performance in developed markets benefited from sales of products and services from our new acquisitions which were primarily exposed to these regions. Going forward, we expect further opportunities to emerge in Asia as we expand the reach of these products and services. We anticipate that Asia will be our fastest growing region over the medium to longer term.

Innovation remains at the core of the Group's culture. Our strong performance is underpinned by continued investment in R&D, which increased this year by 29% to £25.8 million (2011: £20.0 million). The percentage of revenue that is made up of products launched or acquired in the last three years is a key indicator of the vitality of our new product development and has increased from 34% in 2011 to 44% in 2012.

## OUR PEOPLE

A high technology business relies on the skills and expertise of its people. We therefore recognise the importance of ensuring a sustainable business going forward through an inclusive strategy of managing, developing and recruiting people who support our company values and contribute to our growth. I am proud to lead such a talented and committed workforce and I thank them for their continued contribution to our success.

## OUTLOOK

We are now two months into the second year of our 14 Cubed Plan. Trading to-date has been in line with our expectations and our markets remain strong despite continued economic uncertainty, particularly in Europe. A healthy pipeline of new product introductions is in place and we are investing across the business to increase efficiency, strengthen our market positions and drive further profitable growth. We are well positioned to build on the opportunities presented by emerging markets and to take advantage of new applications and technologies as they arise. We continue to look for bolt-on acquisitions to complement our existing businesses.

A changing market presents interesting opportunities as well as challenges and we are confident that we have the structure, products and talent in place to make further progress in the current year and beyond.

**Jonathan Flint**
Chief Executive

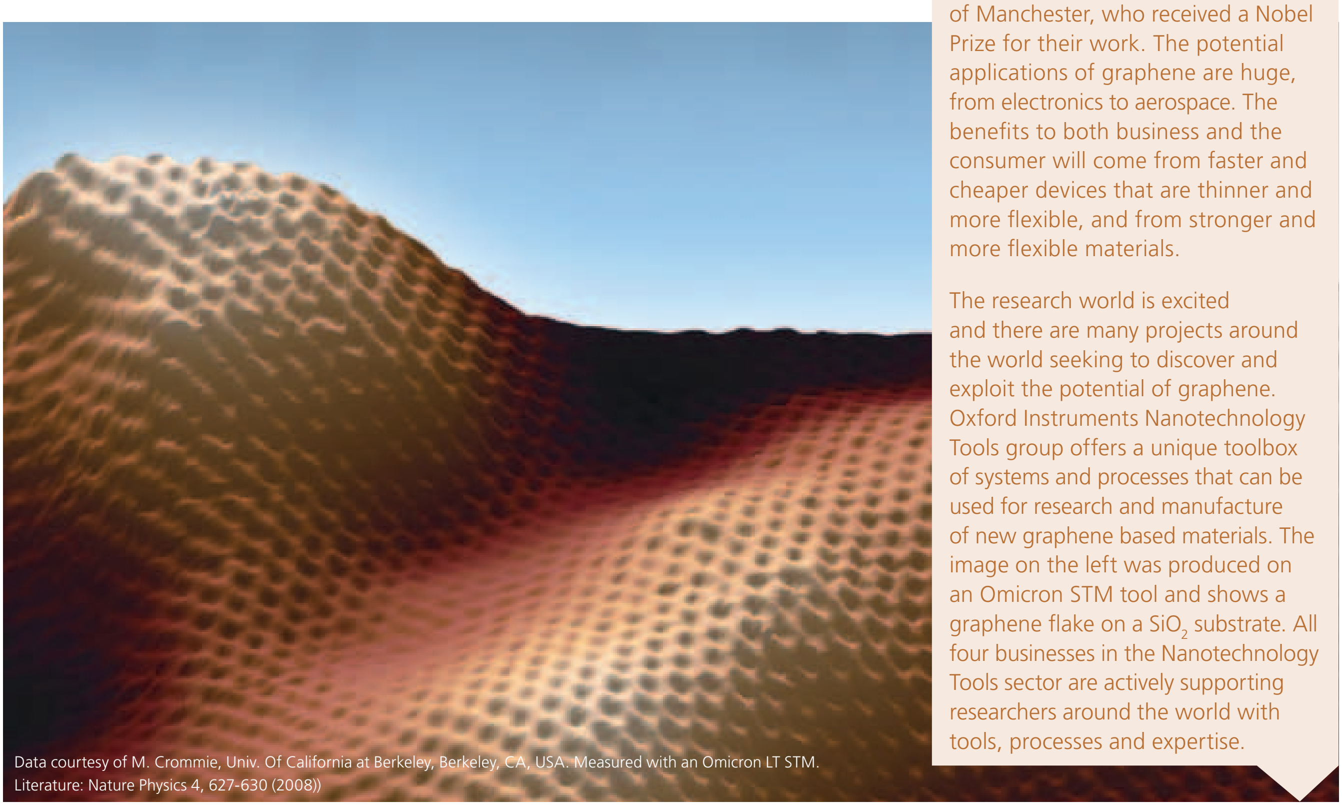
12 June 2012

Omicron LT STM meets the trend in research towards sophisticated experiments with extremely long measurement times

**NANOTECHNOLOGY TOOLS: Graphene**

Graphene has been described as the strongest material ever measured and is 200 times stronger than steel. It was discovered by Professors Andre Geim and Kostya Novoselov of the University of Manchester, who received a Nobel Prize for their work. The potential applications of graphene are huge, from electronics to aerospace. The benefits to both business and the consumer will come from faster and cheaper devices that are thinner and more flexible, and from stronger and more flexible materials.

The research world is excited and there are many projects around the world seeking to discover and exploit the potential of graphene. Oxford Instruments Nanotechnology Tools group offers a unique toolbox of systems and processes that can be used for research and manufacture of new graphene based materials. The image on the left was produced on an Omicron STM tool and shows a graphene flake on a $SiO_2$ substrate. All four businesses in the Nanotechnology Tools sector are actively supporting researchers around the world with tools, processes and expertise.



Data courtesy of M. Crommie, Univ. Of California at Berkeley, Berkeley, CA, USA. Measured with an Omicron LT STM.
Literature: Nature Physics 4, 627-630 (2008))

# Operational Review A healthy pipeline of new product introductions is in place and we are investing across the business to increase efficiency, strengthen our market positions and drive further profitable growth


Nanotechnology Tools sales growth

**26.4%**

Benchtop magnetic resonance analyser

We operate in three sectors: Nanotechnology Tools, Industrial Products, and Service.

## NANOTECHNOLOGY TOOLS

| | 2012 £m | 2011 £m |
|---|---|---|
| **Revenue** | 153.9 | 121.8 |
| **Operating profit** | 17.3 | 14.6 |

The Nanotechnology Tools sector comprises our NanoAnalysis, NanoScience, Plasma Technology and Omicron NanoTechnology businesses. This sector produces our highest technology products and serves research and industrial customers in both the public and private sectors.

Our NanoAnalysis business produces leading-edge tools that enable materials characterisation and sample manipulation at the nanometre scale. Its products are used on electron microscopes and ion-beam systems across academic and industrial applications including semiconductors, renewable energy, mining, metallurgy and forensics. This business has produced a strong performance across all regions, driven by the launch of AZtec, a revolutionary materials characterisation system. The integration of Omniprobe Inc, acquired in June 2011, has enhanced our product range with innovative nano-manipulation tools for sample preparation.

Our NanoScience business is the world's leading supplier of cryogenic systems for nano-characterisation and measurement at low temperatures and high magnetic fields. Its technologies are used in applications such as characterisation of new materials and devices at the nanoscale, data protection and storage, fusion energy and high temperature superconductor materials. This business has performed well in the year and is now the world's leading supplier of cryogen-free products. The Triton cryogen-free dilution refrigerator, with an integrated high-field superconducting magnet, has performed strongly, particularly in the Quantum Computing segment. The launch in the year of Mercury, a new electronics system, further strengthened our market position offering intelligent control of cryogenic and magnetic environments.

Our Plasma Technology business provides leading-edge tools and processes for the fabrication of nanostructures. Our systems provide process solutions for nanometre layer growth of compound semiconductor material, etching of nanometre sized features and the controlled growth of nanostructures in markets ranging from semiconductor electronics, Micro Electro Mechanical Systems (MEMS), High Brightness LEDs (HBLED) and photovoltaic devices. Order intake levels were maintained and the order book is healthy, despite the anticipated weakening in HBLED capital equipment demand. As previously reported, sales of equipment to make HBLEDs declined due to over capacity in the market but are forecast to pick up towards the end of the current financial year as devices for commercial and domestic lighting become more affordable.

In March 2012 we transferred ownership of TDI, a wholly owned subsidiary which develops hydride vapour phase epitaxy (HVPE) technology for use in the production of High Brightness LEDs, to Ostendo, a privately owned company based in California. This will maximise the value from our technology investment in HVPE.

Our Omicron NanoTechnology business supplies analytical solutions for nanotechnology R&D, providing innovative, high performance tools that offer unique multi-technique systems. We are investing in additional R&D, sales and service. There has been a trend in the market towards much larger integrated systems from which Omicron is well placed to benefit. For example, the recent launch of Argus, an innovative electron spectrometer, has enabled our research customers to undertake experiments that were not previously possible with standard detector technology.

Following the acquisitions of Omicron and Omniprobe, good progress has been made with their integration into the Group, growing our Nanotechnology Tools offering and leveraging sales and brand synergies. This has significantly improved our competitive position when bidding for multi-million dollar systems that contain products from more than one of the Nanotechnology Tools businesses, and we have enjoyed particular success in the fast growing BRIC territories where brand plays an important role in the selling process. We monitor the market's perception of our performance through solicitation of regular feedback from our customers. We quantify this in our Net Promoter Score metric which has improved in the year.


X-Supreme, EDXRF analyser

## INDUSTRIAL PRODUCTS: Hidden Hunger

Billions of people around the world suffer from 'hidden hunger' or micronutrient malnutrition. They do not get enough micronutrients required to lead healthy productive lives from the foods that they eat. Micronutrients are vitamins and minerals (such as vitamin A, zinc, and iron) and are essential to good health.

Micronutrient malnutrition can lower IQ, cause stunting and blindness in children, lower resistance to disease in both children and adults, and increase risks for both mothers and infants during childbirth.

HarvestPlus, a global leader in the development of nutrient-rich crops, was one of the first recipients of funding for funding for research into micronutrients in crops granted by the Bill and Melinda Gates Foundation. HarvestPlus is using Oxford Instruments X-ray Fluorescence (XRF) X-Supreme analyser in its plant breeding programme to screen whole grain rice sample for concentrations of iron and zinc. This programme is designed to tackle the hidden hunger by developing nutrient rich grains and cereals. Use of XRF costs just 2 cents per sample, versus the $20 per sample using other methods of analysis.

# Operational Review *continued*


Industrial Products sales growth

28.5%


Oxford Instruments Industrial Analysis' Period Table App

**INDUSTRIAL PRODUCTS**

| | 2012 £m | 2011 £m |
|---|---|---|
| **Revenue** | 129.1 | 100.5 |
| **Operating profit** | 13.8 | 6.1 |

The Industrial Products sector contains our Industrial Analysis, Superconducting Wire, Austin and Magnetic Resonance businesses. This sector supplies analytical systems for quality control, environmental and compliance testing, and components for industry and research.

Our Industrial Analysis business supplies high quality instruments for materials identification and thickness gauging analysis essential for quality control. Our customers span global industries from metals, alloy manufacturing, steel foundries and scrap recycling through to automotive, solar, petrochemicals, cement, recycling, and precious metals. Performance for this business was very strong across all sectors. Our Optical Emission Spectroscopy division performed particularly well in Asia and saw orders rise on the back of its recently launched FoundryMaster Xpert tool, specifically designed for the steel industry. We also launched the XMET7500, a hand held analyser, delivering high performance and flexibility for the rapid analysis of the widest variety of materials from metals to soils. Sales have exceeded expectations in all territories. In addition, process improvement in our x-ray tube facility in California has led to significant gains in productivity. In October 2011, we rationalised the industrial product offering by disposing of a non-core product line that we produced for a single customer, to that customer.

Our Superconducting Wire business is the world leader in the provision of high performance superconducting wire for industry and research, spanning markets that include MRI healthcare, physics research, life sciences, fusion energy and particle accelerators. The core business providing wire for MRI machines benefited from robust demand from our major OEM customers. Following the major order received in 2010, a further small order for wire for ITER, the multinational carbon free energy programme, was received in 2011 and shipments remain on track.

Our Austin business specialises in high vacuum products, helium gas coolers and services for the semiconductor, research, life science and energy industries. It had a good year driven by demand for its products from the solar industry and backed up by its core products and services. A programme of efficiency initiatives has reduced lead-times. The strong performance of this business has driven a move to new premises, planned for 2012.

Our Magnetic Resonance business produces benchtop Nuclear Magnetic Resonance analysers for a broad range of industries for quality assurance, production optimisation and research applications. They are used for applications in agriculture, food and beverage, textiles, polymers, petrochemicals and oil and gas exploration. This business showed a good performance and has a secure order book going forward. It has good profit margins and sales of the recently launched AffirmoEX, the world's smallest benchtop Electron Magnetic Resonance spectrometer for industrial, scientific and educational applications, have exceeded expectations.


Service
revenues increased

32.5%

| SERVICE | 2012 £m | 2011 £m |
|---|---|---|
| **Revenue** | 56.3 | 42.5 |
| **Operating profit** | 11.0 | 7.4 |

This sector comprises our service, support, training, refurbishment, consumables and accessories elements of our business. It consists of our CT and MRI Service business in North America and Asia, and the service elements of Nanotechnology Tools and Industrial Products sectors. The business performed well across all territories, particularly Asia where the adoption of a service contract model is gaining greater acceptance across a growing installed base.

The acquisition of Platinum Medical Imaging in November 2011 has also made a positive contribution to this sector. Platinum offers third party servicing and support to operators of MRI and CT scanners in North America. Structural changes in the US health care market continue to benefit this business. Recognition of the Oxford Instruments brand has increased customer confidence in the Platinum offering and helped to further grow market share in North America.

**SERVICE: collaborating to provide successful global seminars**

Oxford Instruments Plasma Technology's successful technical seminars and workshops are organised in collaboration with key customer research universities in Europe, Asia and the USA. These events aim to encourage interest in developments within the industrial and research communities using Plasma and Ion Beam Etch and Deposition process techniques.

The events run worldwide several times per year, co-hosted with prestigious organisations such as the Institute of Science – Chinese Academy of Science in Beijing, Lawrence Berkeley National Lab, Caltech and Cornell in the USA, the University of Freiburg/Institut für Mikrosystemtechnik in Germany, the Universities of Southampton and Glasgow in the UK, and Eindhoven University of Technology in the Netherlands.

60–100 participants from academia and industry attend each event, enhancing Oxford Instruments' relationship with these institutes, and its standing in the industry. These events also attract many invited guest speakers to participate, all of whom are acknowledged specialists in their field. Process and Applications experts from Oxford Instruments Plasma Technology also give a number of talks on the company's technologies and process solutions, and run workshops on specific topics.

Over 100 people attended the successful nanoscale Plasma Processing Seminar in Beijing in 2011

# Financial Review The diverse nature of the Group combined with its current financial strength provides a solid foundation for a sustainable business

Revenue **+28.6%**

£337.3m

Return on Sales

12.5%

Net Cash

£35.1m

**TRADING PERFORMANCE**

The Group uses adjusted figures as key performance measures in addition to those reported under adopted IFRS. Unless otherwise stated, all profit, earnings and operating cash flow figures referred to below are adjusted measures. A reconciliation is given below.

Orders of £337.8 million were £64.3 million ahead of the same period last year, an increase of 23.5%. At the end of the year the order book for future deliveries stood at £136.8 million up from £115.3 million at the end of the previous year.

Revenues in the year grew by 28.6% (£75.0 million) to £337.3 million. Revenues from the acquisitions less disposals in the period were £35.4 million, adverse foreign currency exchange rate movements reduced sales by £0.9 million while increasing copper prices increased sales by £0.8 million (there was no impact on profits as movements in the price of copper are passed on to our customers). As a result, organic revenue growth was 15.1%.

In the Nanotechnology Tools division, sales grew by 26.4% helped by the Omicron and Omniprobe acquisitions that took place in June. Organic growth at 2.1% was impacted by the expected decline in sales of systems to manufacture HBLEDs; excluding these sales, underlying organic growth was 11.0%. Sales of equipment to make HBLEDs declined due to over capacity in the market but it is anticipated that demand will pick up towards the end of the current year.

Sales in the Industrial Products sector grew by 28.5% helped by a full year of ITER shipments, partially offset by the disposal of a product line in October 2011. Excluding these two factors, sales grew by 23.3% as a result of a number of product launches including the XMET7000 series handheld analyser in Industrial Analysis, as well as increased MRI sales and a large new contract for the Austin business.

Service revenues increased by 32.5%, helped by the acquisition of Platinum Medical Imaging in November 2011. Excluding this, organic growth was 16.9% reflecting the focus on selling and marketing service contracts.

Gross margins increased from 42.7% to 44.2% despite the disproportionate growth of the lower margin superconducting wire business. These improved margins were predominantly due to new product introductions and increased efficiencies with our Value Add Index Key Performance Indicator increasing from 1.42 to 1.49. This measure is a reflection of the operating profit generated from each unit of employment costs.

Operating expenses rose by £23.1 million of which £12.5 million related to the acquisitions and £0.7 million to foreign exchange rate movements. Underlying constant currency growth in operating expenses was 11.8%.

Adjusted operating profit increased by £14.0 million to £42.1 million. The majority of this increase was a result of the higher sales volume, with a £2.8 million contribution from the acquisitions.

## ADJUSTING ITEMS

The Directors believe that adjusted profit before tax gives a clearer indication of the underlying performance of the business. A reconciliation of reported profit before tax to adjusted profit before tax is given in the table below.

Amortisation of acquired intangibles has increased by £6.5 million as a result of the acquisitions made in the year.

## FINANCIAL INCOME AND EXPENDITURE

Within financial income and expenditure, net interest on debt reduced by £0.4 million to £0.8 million as cash levels rose, the majority of the remainder reflects fees related to our revolving credit facility. The expected return on pension scheme assets exceeded the interest charge on pension scheme liabilities by £0.7 million, a swing of £1.4 million over the prior year. Due to the increased pension liabilities and the very low gilt yields at 31 March 2012, net pension interest will be a charge to the Income Statement in the current year.

### Currency hedging

The Group uses derivative products to hedge its exposure to fluctuations in foreign exchange rates. It is Group policy to have in place at the beginning of a financial year hedging instruments to cover 80% of its forecast transactional exposure for that period.

In common with a number of other companies, the Group has decided that the additional costs of meeting the extensive documentation requirements of IAS 39 to apply hedge accounting to the foreign exchange hedges cannot be justified. Accordingly the Group does not use hedge accounting for these derivatives. Net movements on marking to market such derivatives at the balance sheet date are disclosed in the income statement as Financial Expenditure and excluded from our calculation of adjusted profit before tax (note 1).

| **Adjusting Items** | **2012 £m** | **2011 £m** |
|---|---|---|
| Profit before income tax | 36.1 | 26.7 |
| Pension scheme curtailment gain | – | (4.1) |
| Shareholder earnout no longer required | – | (0.6) |
| Reversal of acquisition related fair value adjustments to inventory | 1.7 | – |
| Gain on disposal of product line | (7.0) | – |
| Acquisition related costs | 1.5 | – |
| Impairment | – | 0.6 |
| Amortisation of acquired intangibles | 11.2 | 4.7 |
| Mark to market gain in respect of derivative financial instruments | (1.5) | (1.1) |
| Adjusted profit before income tax | 42.0 | 26.2 |
| Share of taxation | (8.8) | (5.7) |
| Adjusted profit | 33.2 | 20.5 |

Adjusted gross margin **+1.5pp**

44.2%

Adjusted operating profit **+50%**

£42.1m

# Financial Review *continued*

Adjusted earnings per share **+48.4%**

61.6p

**Commodity hedging**
The Group also uses derivative products to hedge its exposure to fluctuations in the price of copper, a major component for the Superconducting Wire business. Given the small number of contracts involved, we apply hedge accounting for these transactions and consequently the results of marking to market are excluded from the Income Statement.

## TAXATION

The underlying tax rate on the profit before tax for the Group before adjusting items was broadly unchanged at 21% (2011: 22%).

The Group has significant tax losses in the UK available to offset against future taxable profits. In the year ended March 2011, due to the improved performance of the Group's UK business units, we recognised a deferred tax asset of £11.3 million and a corresponding credit to the Income Statement. We believe that this was exceptional both in nature and quantum and therefore excluded it from our calculation of adjusted earnings per share. Of this asset value, £4.6 million reversed in the year ended March 2012 and for consistency we have excluded it from the calculation of adjusted earnings per share (see note 1).

## EARNINGS

After a tax charge of £11.3 million, a swing of £16.8 million from the prior year primarily due to the deferred tax discussed above, the reported net profit for the financial year was £24.8 million (2011: £32.2 million). With a weighted average number of shares of 54.0 million (2011: 49.3 million), the basic earnings per share were 46.0 pence (2011: 65.3 pence). Adjusted profit before tax (note 1), which we believe gives a better indication of the underlying performance of the business, grew by £15.8 million to £42.0 million which equates to an adjusted earnings per share of 61.6 pence (2011: 41.5 pence), an increase of 48.4%.

## DIVIDENDS

In the prior year the Group moved to a progressive dividend policy, whereby we would seek to raise dividends as adjusted earnings per share rise, although not necessarily by the same proportion, depending on the directors' perceived need for cash to expand the business both organically and through acquisition. For the year just ended the proposed final dividend of 7.23 pence per share (2011: 6.48 pence), payable on 25 October 2012 to shareholders who are on the register on 28 September 2012, gives a total dividend for the year of 10.0 pence per share (2011: 9.0 pence). Dividend cover for the underlying business before adjusting items was 6.2 times (2011: 4.6 times).

## INVESTMENT IN RESEARCH AND DEVELOPMENT (R&D)

The amount charged to the Income Statement in relation to R&D was £25.8 million or 7.6% of sales (2011: £20.0 million, 7.6%).

During the year we changed our income statement classification in respect of custom engineering specials. A custom engineering special is a product designed to a specific customer order. We now report the design costs of such products within research and development which we consider to be more comparable.

A reconciliation between the amounts charged to the Income Statement and the cash spent is given in the table opposite.

The net book value of capitalised R&D at the end of the financial year was £11.7 million (2011: £15.0 million).

## BALANCE SHEET

Net assets rose from £93.5 million to £127.1 million primarily as a result of the equity issue made in the year and the increase in the retained profit.

Net working capital (excluding derivative financial instruments and tax payable/receivable) reduced by £1.0 million in the year to £14.9 million, despite £2.8 million of the £10.2 million deposit that was received in 2009 for the ITER contract unwinding.

Inventory turns remained constant at 3.2 while debtor days increased from 48 days to 53 days.

## ACQUISITIONS AND DISPOSALS

On 13 June 2011 the Group made two acquisitions: Omicron NanoTechnology GmbH for £28.3 million and Omniprobe Inc. for £12.3 million. These were funded using the Group's resources. On 17 June, the Group raised £37.5 million through an equity issue to ensure that there were sufficient internal resources to complete the 14 Cubed Plan.

On 20 October 2011 the Group disposed of a product line for consideration of £8.1 million, £7.1 million of which was paid on completion, with a further £1.0 million receivable on the first anniversary of completion.

On 3 November 2011 the Group acquired Platinum Medical Imaging LLC for an initial consideration of US$18 million with a contingent element of up to US$37 million payable over three years dependent on performance over that period.

On 22 March 2012 the Group transferred its ownership of TDI, a wholly owned subsidiary which develops Hydride Vapour Phase Epitaxy (HVPE) technology for use in the production of HBLEDs, to Ostendo, a privately owned company based in California. The Group received 0.65 million shares of Ostendo common stock plus $0.65 million in cash of which $0.15 million will be paid in September 2012. The Group will also receive a royalty if certain HVPE reactor sales are realised.

**Research and development**

| | 2012 £m | 2011 £m |
|---|---|---|
| Research and development expense charged to the consolidated statement of income. | 25.8 | 20.0 |
| Less: depreciation of R&D related fixed assets | (1.6) | (0.6) |
| Add: amounts capitalised as fixed assets | 1.3 | 2.3 |
| Less: amortisation of R&D costs capitalised as intangibles | (5.2) | (5.4) |
| Add: amounts capitalised as intangible assets | 2.4 | 3.0 |
| **Total cash spent on research and development during the year** | 22.7 | 19.3 |

Research and Development charge **29%**

£25.8m

Net assets **+36%**

£127.1m

# Financial Review *continued*

Adjusted EBITDA **+39%**

£52.1m

Cash generated by operations **+29%**

£50.5m

New cooling tool for the investigation of molecular structures

## PENSIONS

The Group has defined benefit pension schemes in the UK and the US. Both have been closed to new entrants since 2001 and closed to future accrual from July 2010. The total IAS19 deficit, before tax, on these pension schemes rose in the year by £23.5 million to £35.2 million with a corresponding deferred tax asset of £8.7 million.

Assets of the schemes at 31 March 2012 were £180.2 million (2011: £173.1 million), while liabilities increased from £184.8 million to £215.4 million principally as a result of the fall in the corporate bond yield used to discount future cash flows from 5.6% to 4.9%.

The latest triennial actuarial valuation of the UK scheme was carried out as at 31 March 2009 and resulted in an actuarial deficit of £39.5 million. A long-term plan for recovering the deficit over 14 years was agreed between the Company and the Pension Trustee, which involved a payment of £3.1 million for the year to March 2010, £5.3 million for the year to March 2011, £4.5 million for the year to March 2012 and will comprise a payment of £4.9 million for the year to March 2013. For the subsequent 10 years the 2013 payment of £4.9 million will be inflated by 2.85% per annum. Work is currently underway to produce an actuarial valuation as at 31 March 2012. The results of this valuation may alter the future payments to the scheme.

## CASH

Earnings before interest, tax, depreciation and amortisation (EBITDA) increased by 39% to £52.1 million. The working capital movement in the year reduced by £2.4 million, building on the reductions in the previous two years. Trading working capital, which we define as inventory plus trade debtors less trade creditors and advances received as a percentage of sales, was 15.4% (2011: 16.3%).

Cash generated from operations was £50.5 million, an increase of £11.3 million on the prior year. The ratio of operating cash to operating profit was 110.5% (2011: 126.7%).

Net cash at the year-end was £35.1 million (2011: £13.1 million). The Group maintains a committed Revolving Credit Facility with a club of three banks. The facility, which extends to December 2014, is for £50 million and is extendable to £70 million by mutual consent. In addition, the Group has overdraft and other facilities totalling £14.5 million.

## EMPLOYEES

The average number of people employed during the year was 1,834, an increase of 336 over the prior year. Of this increase, 262 were employees who joined the Group from acquired companies. Average sales per employee increased by 5% to £183,900.

## SHARE PRICE

The closing mid-market price of the ordinary shares at the end of the financial year was £12.15, compared with £7.03 at the beginning of the year. The highest and lowest prices recorded in the financial year were £12.62 and £7.03 respectively.

## GOING CONCERN

The Group's business activities, together with the factors likely to affect its future development, performance and position, are set out in the Chief Executive's Statement. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described in this Financial Review.

The diverse nature of the Group combined with its current financial strength provides a solid foundation for a sustainable business. The Directors have reviewed the Group's forecasts and considered a number of potential scenarios relating to changes in trading performance. The Directors believe that the Group will be able to operate within its existing debt facility which expires in December 2014. This review also considered hedging arrangements in place. As a consequence, the Directors believe that the Group is well placed to manage its business risks successfully.

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.

**Kevin Boyd**
Group Finance Director

12 June 2012

X-Max Silicon Drift Detector for large area analysis on electron microscopes

**NANOTECHNOLOGY TOOLS: Asbestos detection**

We have recently been successful in supplying our nanoanalysis systems for transmission electron microscopes to a number of analytical laboratories for the enhanced detection of asbestos fibres.

A well known carcinogen, asbestos is found as minute airborne fibres in both industrial and ambient environments. It is necessary to use the resolving power of a transmission electron microscope to characterise these very fine particles by morphology, crystal structure and chemistry. Each different type of asbestos has a specific chemistry and the large area of our X-Max detector allows for accurate detection of fibre type. This enables faster throughput of samples but also, in many cases, provides forensic information as to the provenance of this airborne carcinogen and hence the potential to eliminate the source of the pollutant.

# Principal Risks

| SPECIFIC RISK | Context | Risk | Possible Impact |
|---|---|---|---|
| **Technical Risk** | The Group provides high technology equipment and systems to its customers. | Failure of the advanced technologies applied by the Group to produce commercial products, capable of being manufactured and sold profitably. | • Lower profitability and financial returns.<br>• Negative impact on the Group's reputation. |
| **Economic Environment** | The recent global recession and prevailing economic downturn have resulted in cuts to both government and private sector spending. | Demand for the Group's products may be lower than anticipated. | • Lower profitability and financial returns. |
| **Acquisitions** | Part of the growth of Oxford Instruments' plans is to come from acquisitions which provide the Group with complementary technologies. | Appropriate acquisition targets will not be available in the necessary timescale.<br>Alternatively, once acquired, targets may fail to provide the planned value. | • Lower profitability and financial returns.<br>• Management focus taken away from the core business in order to manage integration issues. |
| **Foreign exchange volatility** | A significant proportion of the Group's profit is made in foreign currencies. | The Group's profit levels are exposed to fluctuations in exchange rates. | • Lower profitability and financial returns. |
| **Outsourcing** | The Group's strategic plan includes the outsourcing of a significantly higher proportion of the costs of its products to benefit from economies of scale and natural currency hedges. | Failures in the supply chain impacting sales. | • Disruption to customers.<br>• Negative impact on the Group's reputation. |
| **Raw material volatility** | The Group relies on the purchase of a significant amount of copper for the production of its superconducting wire. | As copper prices rise, profitability falls. | • Lower profitability.<br>• Occasional disruption to production. |
| **Pensions** | The Group's calculated pension deficit is sensitive to changes in the actuarial assumptions. | Movements in the actuarial assumptions may have an appreciable effect on the reported pension deficit. | • Additional cash required by the Group to fund the deficit.<br>• Reduction in net assets. |
| **People** | A number of the Group's employees are business critical.<br>The Group's growth plan requires people and structure capable of managing the increasing size and complexity of the business. | One critical or a number of key employees in an associated work area leave the Group.<br>Performance does not meet expectations. | • Disruption to customers.<br>• Lower profitability and financial returns. |

| Associated strategic priorities | Mitigation |
|---|---|
| • 'Realising the Brand' – Using 'Voice of the Customer' to drive rapid new product development.<br>• 'Adding Personal Value' – Support and develop our employees to maximise their value add. | • The Group has moved away from large scale, single customer development programmes towards more commercially orientated products.<br>• The New Product Introduction programme that any new R&D projects must pass through provides a framework within which the commercial viability of projects are scrutinised and assessed. |
| • 'Realising the Brand' – Developing a strong brand in existing and developing markets.<br>• 'Delivering Shareholder Value' – Focus on balanced and attractive global markets. | • The Group has a broad spread of customers, applications and geographical markets.<br>• The Group is expanding in the so called BRIC nations, especially China, which has not suffered from the downturn. |
| • 'Realising the Brand' – Developing a strong brand in existing and developing markets.<br>• 'Inventing the Future' – Using 'Voice of the Customer' to drive rapid new product development.<br>• 'Adding Personal Value' – Supporting and developing our employees. | • Extensive financial and technical due diligence is undertaken by the Group during any acquisition programmes.<br>• Each transaction has a comprehensive post acquisition integration plan which is reviewed at the highest level. |
| • 'Delivering Shareholder Value' – Focus on balanced and attractive global markets.<br>• 'Liberating Cash' – Developing a competitive global supply base that supports our growth. | • The Group seeks to mitigate the exposure to transactional risk by the use of natural hedges wherever possible.<br>• The remaining transactional foreign exchange risk in any year is mitigated through the use of forward and non-premium based option exchange contracts. |
| • 'Liberating Cash' – Developing a competitive global supply base that supports our growth.<br>• 'Realising the Brand' – Developing a strong brand in existing and developing markets. | • Relationships with outsourcing businesses are monitored closely and any potential issues are acted upon swiftly to avoid disruption.<br>• Where practical dual sources are used for key components and services. |
| • 'Liberating Cash' – Developing a competitive global supply base that supports our growth.<br>• 'Delivering Shareholder Value' – Focus on balanced and attractive global markets. | • The Group has entered into agreements with the two largest buyers of superconducting wire to pass the vast majority of pricing risk to them. |
| • 'Delivering Shareholder Value' – Focus on balanced and attractive global markets.<br>• 'Liberating Cash' – Developing a competitive global supply base that supports our growth. | • The Group has closed its defined benefit pension schemes in the UK and US to future accrual.<br>• The Group has a funding plan in place to reduce the pension deficit over the short to medium term. |
| • 'Adding Personal Value' – Supporting and developing our employees.<br>• 'Inventing the Future' – creating a sustainable organisation. | • The Group undertakes a regular employee survey and implements and reviews resulting action plans.<br>• A comprehensive succession planning process is in place, together with a talent network which identifies and manages contacts with people who could provide external succession for critical current and future roles.<br>• A management development programme provides exposure to key skills needed for growth. Regular individual performance reviews take place. |

# Corporate and Social Responsibility The Oxford Instruments brand and company values are at the heart of the Group's approach to Corporate Social Responsibility (CSR)

## OUR VALUES

**INCLUSIVE**
We listen and engage with customers, colleagues, shareholders and partners for mutual success.

**TRUSTED**
We build long term relationships based on integrity, trust and respect.

**INNOVATIVE & PROGRESSIVE**
We bring skill, experience and openness to new ideas to address the needs of the 21st Century.

**WHOLEHEARTED**
We approach what we do with passion, with care and with pace.

## OUR BRAND IDENTITY

**WE BELIEVE PEOPLE MAKE THE DIFFERENCE**

**WE MEET OUR CUSTOMERS' NEEDS THROUGH ADVANCED TECHNOLOGY AND SERVICE**

**WE USE INNOVATION TO TURN SMART SCIENCE INTO WORLD CLASS PRODUCTS**

**WE HAVE EXPERIENCE TO RELY ON AND INTEGRITY TO TRUST**

In 2011, we announced our three year plan for the business which we called our 14 Cubed Plan. The objectives of this strategy are to achieve 14% Return on Sales and 14% revenue growth per year by 2014. Supporting this strategy we have introduced a Business Improvement Plan with a set of Key Performance Indicators focused on our growth target.

For more information, see Our Strategy on pages 8 and 9

Our CSR strategy is focused on the following key issues:

- **Business Ethics**
- **Customer focus and service**
- **Employee Engagement, Diversity and Inclusion**
- **Health and Safety**
- **Supplier and Partner Engagement**
- **Sustainability (environments and communities)**
- **Communications**

## BUSINESS ETHICS

The Board is committed to maintaining the positive ethical standards the Oxford Instruments brand is known for and expect the same commitment from our partners, employees, customers, suppliers and representatives. We work ethically, openly, responsibly and inclusively. We strive for maximum transparency wherever possible; do not make political donations and do not tolerate any form of bribery, corruption or fraud. We have in place a Business Conduct and Ethics Code which all employees are made aware of:

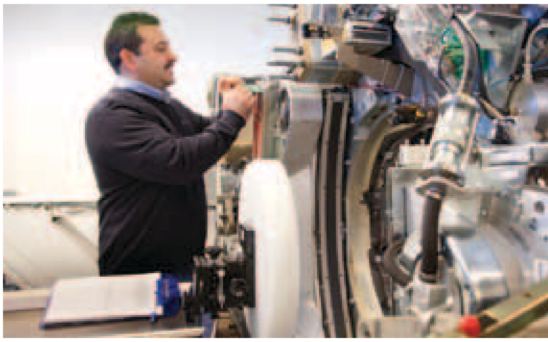
- at the time of joining the Company;
- through visibility on the Company intranet; and
- through visibility on the corporate website

This Code is supported by a comprehensive range of policies that the Board considers reflect our commitment to maintaining the standards of conduct required by a commercially responsible organisation.

### Business Conduct & Ethics Code – Supporting policies

Our Code is supported by a range of policies which are regularly monitored by the Board and updated and added to whenever necessary. Each policy gives detailed information on how to manage sensitive issues once an assessment of risk has been identified.

- Business Malpractice
- Anti-Corruption and Bribery
- Human Rights
- Environment
- Health & Safety
- Communications (including social media and internet policy)
- Diversity and Inclusion
- Insider Dealing
- QA requirements for suppliers


MRI scanner repairs

**Our vision** is to pursue responsible development and deeper understanding of the world through science and technology


Nordlys EBSD detector for crystal structure analysis

# Corporate and Social Responsibility *continued*

Successful apprenticeship programmes

Cryopump testing at our Austin facility

## EMPLOYEE ENGAGEMENT AND DIVERSITY & INCLUSION

The Board recognises that our employees are fundamental to our success. As a high technology business, we have a highly skilled workforce and it is they who deliver our strategic objectives. The Group's aim is to ensure there are equal opportunities for all employees and that such decisions are based on merit and do not take into account factors that are not relevant such as, and without limitation, gender, marital status, family responsibilities, sexual orientation or preference, colour, race, nationality, religious belief, ethnic origin, disability, age and unrelated criminal convictions.

We believe that decision making is more effective when people from a range of perspectives and backgrounds are involved. Therefore encouraging diversity is important to us.

Our business should reflect our diverse customers and markets and the environment in which we operate. Our value of *Inclusive* reflects this diversity. The Board recognises the strategic importance of developing and monitoring diversity within our workforce. The appointment of Dawn Brooks – Group Service Director as the Group's Diversity Champion evidences this focus of our CSR strategy.

We are committed to developing the potential of our existing employees as well as bringing new skills into the Group through acquisition and recruitment. We therefore work hard to provide the environment in which they can all flourish.

The performance of all employees is measured against our values through an annual appraisal process and competencies framework.

### Employee Survey

In 2011, we conducted our second global employee survey. The results showed a pleasing increase in employee engagement from the first survey in 2009. The percentage of employees participating in the survey also rose from 75% in 2009 to 83% in 2011. We are proud that so many of our employees take the time to tell us what they think. Omniprobe and Omicron Nanotechnology, acquired in June 2011, were also surveyed at the end of 2011 to measure the success of integration and indicate any actions going forward. Following each survey, local action plans are drawn up with further input from employees and progress against them is regularly reported.

### Communication

Oxford Instruments' business strategy is communicated throughout the Group and is set out on our intranet for all employees to refer to. This area of the intranet also shows progress against this plan and the business KPIs. Added to this, all employees receive regular updates on the performance of their own business together with the performance of the Group at regular briefing meetings. Whenever appropriate, video announcements or interviews with key senior managers that offer more detail on our performance are posted on the intranet. Periodically, the Chief Executive writes a blog which summarises, at a top level, meetings with investors and analysts, and business strategy sessions. This helps to create understanding of the interests and concerns from an investor perspective.

We invite feedback and suggestions at every point of communication.

## Training and Development

During 2011, we introduced and rolled-out a new development training programme for senior and middle management, helping to raise standards to help and support our managers create an environment of creativity and innovation. The course modules include personal awareness, business strategy, business processes and leadership. During the year, 105 employees from across the world including our recent acquisitions attended the programmes. In the UK, we have a long tradition of supporting apprenticeship schemes which have resulted in high quality young people contributing to our business. In 2010 and 2011 our apprentices won Apprentice of the Year Awards and in 2012 one apprentice won the 1st Year Apprentice Award from the Engineering Trust. Planned for introduction in 2012 is a new, international graduate programme that reflects the global nature of the Group and will contribute to increasing diversity in our management teams of the future.

## Employee Incentives

We recognise that communication of our strategy and performance is not enough to motivate and reward the contribution our employees make to the business. It is important that our highly skilled and educated workforce receive a share in the success of the business. In addition to the regular management and sales commission schemes, in 2011/12 we introduced a Gain Share plan for all employees not in receipt of an existing management bonus. This plan was linked to our 14 Cubed Plan and aligns employees' interest with that of our shareholders.

The 2011/12 Employee Gain Share scheme will pay up to 2% of salary.

- 1% of salary will be paid if the Group achieves at least 12% Return on Sales (ROS) in 2011/12. This is just over a 1% increase against the 2010/11 performance. There must also be no reduction in total sales for the Group.
- 1% of salary will be paid if the Group achieves 14% sales growth against the 2010/11 results. Return on sales must be no less than for 2010/11.

In addition to the incentive scheme, we offer employees extra benefits in the form of discounts on certain local activities, purchases, insurance, health and dental cover etc. For example, Oxford Instruments is a sponsor of Oxford's Ashmolean Museum and regularly offers free tickets to exhibitions for all UK employees. In the UK, Germany, North America and Japan, discounts for local and national shops and services are offered.

The annual Chairman's Awards for Innovation which recognise and reward innovation in its broadest sense have also been realigned with the Business Improvement Plan so that entries are more closely aligned with the brand and the business, strategy and Key Performance Indicators. The continued increase in the standard and number of entries to these awards is evidence of the engagement of our employees in this successful programme.

## CUSTOMER FOCUS AND SERVICE

The Group believes that customer relationships are built on mutual trust, respect and integrity, and that this principle should govern all aspects of the business. Our customer is at the heart of everything we do, and has led to an improved and more professional approach to supporting them on a continuing basis after the original sale.

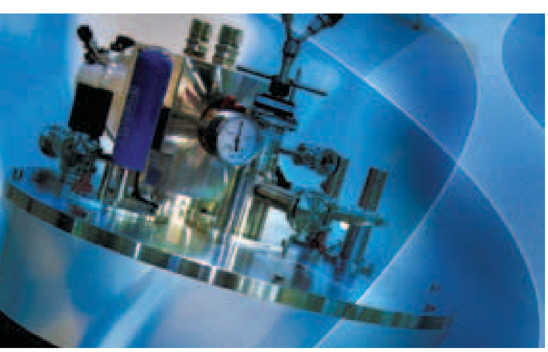
The continued focus on the "Voice of the Customer" in any new product introduction or current product development ensures that the customer needs are at the core of our business. The success of new products introduced in 2011/12 supports this focus. The percentage of revenue that is made up of products launched or acquired in the last three years is a key indicator of the vitality of our new product development and has increased from 34% in 2011 to 44% in 2012.

Annual Chairman's Awards for Innovation

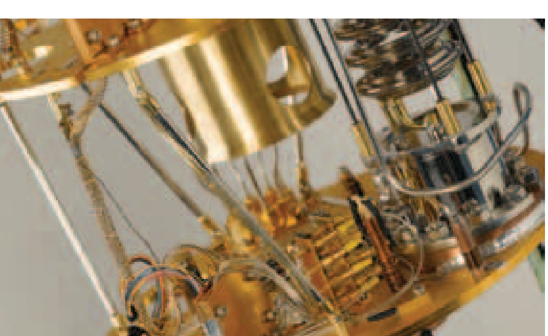
# Corporate and Social Responsibility *continued*

Sites worldwide

33



Teslatron Cryogen free magnet system



Triton Cryogen free dilution refrigerator

## HEALTH & SAFETY

The Group is committed to providing the highest standards of safety in the workplace for our employees and to the continual improvement of our health and safety performance.

Responsibility for Health & Safety lies with the Board. Charles Holroyd, an Executive Director, is responsible for formulating the Group's H&S strategy and objectives, reviewing performance against these objectives and for ensuring that key H&S issues are effectively identified and managed.

The Board reviews the H&S performance of the Group's operations at each meeting. All Group businesses regularly report progress on H&S issues to the Group Health, Safety and Environment Manager who is responsible for keeping Charles Holroyd, and consequently the Board, informed of serious issues. The Group Health, Safety and Environment Manager is responsible for auditing each site annually.

Reportable accidents defined as over 3 days absence per 1,000 employees fell from 7.0 in 2010/11 to 3.8 in 2011/12.

Employees are kept informed of current H&S issues through information provided by local H&S committees. Members include staff from all areas of the business and meet on a regular basis.

In addition, information on health and safety matters is published on the Group intranet, notice boards and in monthly cascades and quarterly business reports. Employees are actively encouraged to suggest improvements that can be made in working conditions and practices.

## SUSTAINABILITY

The core element of our CSR policy is sustainability. This covers four areas:

- **Employees**
  The business has a robust succession planning, organisation and talent review process which the Board reviews at least once a year. This process and a commitment to developing skills and capabilities ensures the long term sustainability and future of the Group.

- **Environment/Energy**
  There are a number of European directives aimed at benefitting the environment that are complied with by the Group. Such directives include the Waste Electrical and Electronic Equipment (WEEE) Directive, the Restriction on use of Hazardous Substances (RoHS) Directive, the Registration, Evaluation, Authorisation and Restriction of Chemicals (REACh) Directive and the Energy use of Products (EuP) Directive.

- **Products**
  Many of the Group's products and services provide solutions which help address the global issues of environmental control and protection, and energy conservation. For example, our hand-held XRF analysers are used in the analysis of hazardous substances in soil and our microanalysis systems are used in the detection of asbestos fibres. We are continually looking for new applications for existing technologies to support the growing need to protect the world and the people who live in it.

- **The Work Place**
  Every site has an Energy Champion who is responsible for implementing plans to reduce its carbon footprint. Each site reports its monthly energy consumption and reduction activities. We have reduced the energy consumption per £million revenue from 77.5MWh/£million revenue to 62.3MWh/£million revenue during the year, a 20% reduction. The 14 Cubed business improvement plan targets 5% a year for the three years up to 2014.

  Taking the acquisitions into account our actual energy consumption increased during the year, as would be expected. However, excluding the acquisitions actual energy consumption fell during the year by around 160MWh, pointing towards a more efficient use of energy. Highlights of note include the reduction of 400MWh of gas at the Carteret site, a 15% reduction, and also the reduction of 160MWh of gas at the High Wycombe site, a 20% reduction.

  All major sites have a responsibility to recycle waste materials including cardboard, paper, wood and metals. Employees are encouraged to recycle paper, packaging, bottles and cans.

  All corporate literature is printed on environmentally friendly paper using Forest Stewardship Council (FSC) accredited printers. This, together with the vegetable oils used to coat the paper, means that the documents are bio-degradable and recyclable.

  There is a dedicated area of the Intranet which regularly updates all employees on the progress we make on all aspects of sustainability.

## EXTERNAL AND INTERNAL COMMUNICATIONS

Our communications strategy is aligned with our CSR objectives both internally and externally. As stated above, our intranet is the primary source of information for all employees, but we also use a whole range of communication tools including informal sessions, company meetings, notice boards and open forums. We strive to maintain good relationships with all forms of media, sponsors and local communities.

In 2011, we introduced a trial set of social media programmes which included the use of Twitter, YouTube and Facebook. This has proved very successful in supporting new product launches and brand awareness and will be rolled-out companywide in 2012/13. Use of social media in the Group is governed by the Social Media Policy.

## SUMMARY

Our Corporate Social Responsibility strategy in 2012 and beyond will maintain the focus on CSR in the strategic decision making process and business performance. We will continue to meet our customer needs through advanced technology and premium service and we will maintain a wholehearted commitment to our employees, customers, partners, local communities and shareholders to conduct our business in an ethical and sustainable manner.

**Jonathan Flint**
June 2012

# 30,000+
service calls per year


Queen's Award for Enterprise standard


Plasma Technology tools for photovoltaic devices

# Directors and Advisers

**NIGEL KEEN**
**Non-Executive Chairman**
Nigel joined the Board in 1999. He has an engineering degree from Cambridge University and has been involved in the formation and development of high technology businesses for more than thirty years. He is a Fellow of the Institute of Chartered Accountants and the Institution of Engineering and Technology. He is Chairman of Laird PLC, Bioquell PLC and Deltex Medical Group plc and a Non-Executive Director of ISIS Innovation Ltd. (Oxford Instruments and Oxford University maintain a close relationship and the Group's Directors are strongly represented on the Board of ISIS Innovation, the University's intellectual property company).

**KEVIN BOYD**
**Group FInance Director**
Kevin joined Oxford Instruments in August 2006 as Group Finance Director. He holds a BEng in Electronic and Information Engineering and is a Chartered Engineer and Chartered Accountant, having qualified with Arthur Andersen. Prior to joining Oxford Instruments, he was Group Finance Director of Radstone Technology plc, Finance Director of Siroyan Ltd and held senior finance positions in the TI Group (now Smiths Group plc). He is a Non-Executive Director of Guidance Ltd and a member of the London Stock Exchange's Primary Markets Group.

**JONATHAN FLINT CBE**
**Chief Executive**
Jonathan joined the Group as Chief Executive in April 2005. He has a BSc in Physics from Imperial College and an MBA from Southampton University. He is a fellow of the Institute of Physics, the Royal Academy of Engineering and the Institution of Engineering and Technology. He sits on the Council of the Institute of Physics and is a member of advisory panels to the UK Science and Technology Facilities Council. Prior to Oxford Instruments, he held senior management positions within Vislink plc, BAE Systems, GEC Marconi and Matra-Space Systems. He was awarded the CBE in the 2012 New Year's Honours for services to science and business.

**CHARLES HOLROYD**
**Group Business Development Director**
Charles was appointed to the Board in November 2005, having joined Oxford Instruments in 1999, and is responsible for Group Business Development. He has a BSc in Electrical and Electronics Engineering from Bristol University and an MBA from INSEAD. He is a Chartered Engineer and a Fellow of the Institution of Engineering and Technology. Previously, he held senior management positions within United Industries plc, B Elliott plc, Spirent plc (previously Bowthorpe plc) and Chloride Group plc.

**Honorary President**
Sir Martin Wood OBE FRS Hon FREng DL
**Company Secretary**
Susan Johnson-Brett ACIS

**BOARD COMMITTEES**
**Audit:** JF Lennox, Chairman; MA Hughes; BJ Taylor
**Remuneration:** NJ Keen, Chairman; MA Hughes; JF Lennox; BJ Taylor
**Nomination:** NJ Keen, Chairman; JM Brady; MA Hughes; JF Lennox; BJ Taylor
**Administration:** Any two Directors

**PROFESSOR SIR MIKE BRADY**
**Deputy Chairman and**
**Independent Non-Executive Director**

Mike joined the Board in 1995 and is Emeritus Professor in the Department of Oncology and Biology at the University of Oxford, having recently retired as BP Professor of Information Engineering. He is also a Fellow of the Royal Society, of the Royal Academy of Engineering and of the Academy of Medical Sciences and a Commissioner of the Royal Commission for the Exhibition of 1851. He is a founding Director (and Chairman) of Guidance Ltd, Mirada Medical Ltd and Matakina Ltd (a New Zealand based company). He is Director of RehaBox Ltd and Chairman of Acuitas Ltd.

**PROFESSOR MIKE HUGHES OBE**
**Senior Independent Non-Executive Director**

Mike joined the Board in November 2004. He is Chairman of EA Technology Ltd and a Non-Executive Director of South Staffordshire Water Ltd. Previously he held senior management positions in GEC including Technical Director and Managing Director of GEC Measurements Ltd, was Deputy Managing Director of GEC Alsthom Power Transmission and Distribution Ltd before becoming CEO of Midlands Electricity until 2002 and Executive Vice President of GPU Inc International Operations Group.

**JOCK LENNOX**
**Independent Non-Executive Director**

Jock joined the Board on 1 April 2009. He is a Non-Executive Director of Dixons Retail plc, Enquest PLC, Hill & Smith Holdings PLC and A&J Mucklow Group plc. He is Chairman of the Tall Ships Youth Trust and HADIL, a human capital business. He was a Senior Audit Partner at Ernst & Young until April 2009.

**BERNARD TAYLOR**
**Independent Non-Executive Director**

Bernard joined the Board in 2002 and is Vice-Chairman of Evercore Partners. 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 Ltd and a Commissioner of the Royal Commission for the Exhibition of 1851. He is also a Fellow of the Royal Society of Chemistry and an Honorary Fellow of St. John's College, Oxford.

**ADVISERS**

**Auditors**
KPMG Audit Plc

**Principal Bankers**
HSBC Bank plc; Clydesdale Bank plc and Santander plc

**Stockbrokers**
JPMorgan Cazenove Limited

**UK Solicitors**
Laytons Solicitors LLP; Ashurst LLP

**US Counsel**
Wilmer Hale LLP

# Report of the Directors

The Directors present their Report and the Financial Statements of Oxford Instruments plc for the year ended 31 March 2012.

## 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. The Company is required to set out in this report a true and fair view of the business of the Group during the financial year ended 31 March 2012, the position of the Group at the end of the financial year and a description of the principal risks and uncertainties facing the Group. The information which fulfils these requirements includes a business and financial review on pages 12 to 23 and corporate and social responsibilities on pages 24 to 29, which are incorporated in this report by reference. The business, the strategy, the research and development activities and likely future prospects of the Group are reviewed in the Chairman's Statement on page 02, the Chief Executive's Statement on pages 10 to 11, the Operational Review on pages 12 to 15 and the Financial Review on pages 16 to 21.

## RESULTS AND DIVIDENDS

The results for the year are shown in the Consolidated Statement of Income on pages 64 to 65. The Directors recommend a final dividend of 7.23p per ordinary share, which together with the interim dividend of 2.77p per ordinary share makes a total of 10p per ordinary share for the year (2011: 9.0p). Subject to shareholder approval, the final dividend will be paid on 25 October 2012 to shareholders registered at close of business on 28 September 2012.

## RISKS AND UNCERTAINTIES

The Board exercises proper and appropriate corporate governance for the Group. It ensures that there are effective systems of internal controls in place to manage shareholders' interests and the Group's assets, including the assessment and the management of the risks to which the businesses are exposed, and to monitor and manage the compliance with all the legal requirements that affect the Group's worldwide business activities. However, such systems are 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.

The Executive Directors report to the Board on changes in the business and in the external environment which may affect the risks which the Group faces. The Executive Directors also provide the Board with monthly financial information. Key performance indicators are reviewed quarterly.

There are a number of risks and uncertainties which may have a material effect on the Oxford Instruments Group. These are described in Principal Risks on pages 22 to 23.

## DIRECTORS

Biographies of all the Directors at the date of this report, including the Non-Executive Directors, appear on pages 30 to 31.

## DIRECTORS' CONFLICTS OF INTEREST

With effect from 1 October 2008, the Companies Act 2006 allows directors of public companies to authorise conflicts and potential conflicts of interest, where appropriate. Only directors with no interest in the matter under consideration may participate in the relevant decision and in doing so they must act in a way which they consider in good faith will be most likely to promote the Company's success. A conflicts policy has been drawn up and a register of conflicts and potential conflicts is maintained.

## DIRECTORS' INTERESTS

The beneficial interests of the Directors in the Company's share capital, all in fully paid up shares at 31 March 2012, are shown below. Details of share options for the Executive Directors are shown in the Directors' Remuneration Report on pages 43 to 52.

| | 2012 shares | 2011 shares |
|---|---|---|
| Kevin Boyd | 66,747 | 28,410 |
| Mike Brady | 2,500 | 2,500 |
| Jonathan Flint | 159,105 | 50,701 |
| Charles Holroyd | 64,686 | 59,580 |
| Mike Hughes | 13,598 | 12,354 |
| Nigel Keen | 126,580 | 126,580 |
| Jock Lennox | 3,500 | 3,500 |
| 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 2012, no Director had a material interest in any contract of significance with the Company or any of its subsidiaries other than as described in the Directors' Remuneration Report on page 48. Since the year end, there have been no changes to the above shareholdings apart from for Jonathan Flint, Kevin Boyd and Charles Holroyd who participate in the Company's Share Incentive Plan and since the year end have each increased their shareholding by 55 shares. Since the year end Jonathan Flint has married. As at the date of this report, his wife has beneficial interests over 559 shares.

## INSURANCE COVER AND DIRECTORS' INDEMNITIES

For a number of years the Group has purchased insurance to cover its Directors and Officers against their costs in defending themselves in 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 Group indemnifies its Directors and Officers.

Neither the insurance nor the indemnity provides cover for situations where the Director has acted fraudulently or dishonestly.

## SHARE CAPITAL

The Company only has one class of share capital which comprises ordinary shares of 5p each. All shares forming part of the ordinary share capital have the same rights and carry one vote each. There are no unusual restrictions on the transfer of a share. The full rights and obligations attaching to the Company's ordinary shares, as well as the powers of the Directors, are set out in the Company's Articles of Association, a copy of which is available on the Company's website. These can also be obtained from Companies House or by writing to the Company Secretary.

During the year to 31 March 2012, the issued share capital was increased by 11.9% with the issue of 5,991,810 ordinary shares (2011: 607,585). Of this, 5,013,121 ordinary shares were allotted at 775p per share following the equity raising which took place in June 2011 and 978,689 ordinary shares were allotted following the exercise of options under the Company's share option schemes. At 31 March 2012, the issued share capital of the Company was therefore 56,166,723 ordinary shares of 5p each. In connection with the Company's equity incentive plans, a separately administered trust held 173,794 ordinary shares at 31 March 2012 (representing 0.3% of the total issued share capital of the Company) and acquired a further 9,351 ordinary shares (2011: 0) which were registered in its name on 2 April 2012. No other shares were acquired by the Company during the year. Details of the share capital and options outstanding as at 31 March 2012 are set out in notes 19 and 8 respectively of the Financial Statements.

At this year's Annual General Meeting, the Directors propose to renew the authority granted to them at last year's AGM to: (a) allot ordinary shares up to an aggregate nominal value of £936,113 (one-third of the Company's issued share capital) (Resolution 13(a)) and, including those shares allotted under Resolution 13(a), up to an aggregate nominal value of £1,872,226 (two-thirds of the Company's issued share capital) where full pre-emption rights are applied (Resolution 13(b)); (b) allot ordinary shares up to an aggregate nominal value of £140,417 (5% of the Company's issued share capital) without first offering them to existing shareholders (Resolution 14); and (c) to buy back up to 5,616,677 of the Company's issued ordinary shares (10% of the Company's issued share capital) (Resolution 15). Details of these resolutions are set out in the notice of the meeting.

## SUBSTANTIAL SHAREHOLDINGS

In the table below are beneficial interests of 3% or more of which the Directors have been notified in accordance with Chapter 5 of the Disclosure and Transparency Rules, of the Company's issued ordinary share capital, the only class of voting capital, at 8 June 2012.

## 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 in accordance with these terms. At 31 March 2012, trade creditors of the Company and the Group's UK subsidiaries were equivalent to 31 days' (2011: 10) and 75 days' (2011: 78) of purchases respectively, based on the amounts invoiced by suppliers during the year and the amounts owed to trade creditors at the end of the year.

**Substantial shareholdings**

| | Indirect/Direct | Share 000 | % of total |
|---|---|---|---|
| BlackRock | Indirect | 8,715,542* | 15.5 |
| Ameriprise Financial | Indirect/direct | 4,983,663 | 8.9 |
| Schroder Investments | Indirect | 4,940,549 | 8.8 |
| Sir MF and Lady KA Wood | Direct | 3,593,530 | 6.4 |
| Kames Capital | Indirect/Direct | 2,287,533 | 4.1 |
| BAE Pension Fund Investment Management (UK) | Direct | 2,010,677 | 3.6 |
| Legal & General | Direct | 1,694,491 | 3.0 |

* of which 1,463,091 shares (2.6%) are held in Contracts for Difference which are disclosable under the Disclosure and Transparency Rules.

# Report of the Directors *continued*

## CHARITABLE DONATIONS

During the year, the Group made charitable donations of £1,845 (2011: £8,210). There have been no political donations during the year.

## FIXED ASSETS

Whilst the market value of some fixed assets may differ from book value, the Directors believe that the differences are not material.

## DISCLOSURE OF INFORMATION TO AUDITORS

Pursuant to Section 418(2) Companies Act 2006 the Directors who held office at the date of approval of this Directors' Report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's Auditors are unaware; 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 11 September 2012 is set out in a letter to shareholders together with explanatory notes relating to the resolutions.

A resolution to re-appoint KPMG Audit Plc as Auditor and to authorise the Directors to set their remuneration will be proposed at the Annual General Meeting.

## CHANGE OF CONTROL ARRANGEMENTS

There are a number of agreements that take effect, alter or terminate upon a change of control of the Company following a takeover, such as banking agreements and company share plans. None of these are deemed to be significant in terms of their potential impact on the business of the Group as a whole although, on a change of control, the Company's committed credit facilities may be cancelled by lenders by giving not less than 3 days notice. It is also possible that Pension Plan funding arrangements would need to be changed following a change of control if that resulted in a weakening of the employer covenant.

## CORPORATE GOVERNANCE

The Board reviews its work on corporate governance in the Corporate Governance Review on pages 35 to 42.

By Order of the Board

**Susan Johnson-Brett**
Company Secretary

12 June 2012

# Corporate Governance



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 UK Corporate Governance Code ("the Governance Code") except as detailed below.

The Board's policies and procedures are documented in the Board Reference File that sets out the roles and delegated authorities applying to the Directors, the Board and the Board Committees. The Board Reference File is reviewed annually by the Board as part of the annual governance review undertaken by the Chairman.

## COMPLIANCE

The Board considers that, throughout the period under review, the Group has complied with the provisions recommended in Section 1 of the Governance Code, other than in respect of Provision D.2.1 with the appointment of Nigel Keen as Chairman of the Remuneration Committee as described below.

## PRESERVATION OF VALUE

The basis on which the Group generates and preserves value over the longer term and the strategy for delivering the objectives of the Group are to be found in the Chairman's Statement on page 02, the Chief Executive's Statement and Operational Review on pages 10 to 15.

## BOARD OF DIRECTORS AND MANAGEMENT STRUCTURE

### Board of Directors

The Board comprises the Chairman, four Non-Executive Directors and three Executive Directors. The Directors' biographies and details of length of service are shown on pages 30 to 31. All the Directors have written letters of appointment that have been approved by the Board and which are available for inspection at the Company's Annual General Meeting.

The Chairman is responsible for leadership of the board and ensuring its effectiveness on all aspects of its role. The division of responsibilities between the role of Chairman and the Chief Executive has been set out in writing and agreed by the Board.

The Board has delegated Group responsibility for the management of health, safety and the environment to Charles Holroyd.

### Management Team

#### General Committee

The Board delegates management of the business to the Chief Executive. To assist in this, the Chief Executive has created a General Committee that consists of the Executive Directors, the Group Operations Director, the Group Technical Director and the Group Human Resources Director.

The General Committee meets at least twice a month either physically or by video or telephone conference and focuses on Group wide performance and risk management and twice a year for strategic away days.

#### Executive Committee

The General Committee is supported by an Executive Committee that consists of the members of the General Committee with the addition of the Managing Directors of each of the principal businesses which comprise the Group.

## OPERATION OF THE BOARD

The Board is responsible to shareholders for delivering sustainable incremental 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, verifies 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 details of the way the Board operates, including a schedule of matters reserved to the Board for decision, are set out in the Board Reference File.

The Board retains control over strategy, investments and capital expenditure, and limits the decisions which can be taken by management in the areas of strategic and financial management and reporting, capital structure, corporate actions, mergers and acquisitions, major contracts and other commitments, litigation and regulatory proceedings, remuneration and share incentive 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.

The Board meets on a regular basis, at least ten times a year, and otherwise as required. Of the ten regular meetings, typically eight are held at Group locations, and the remaining two are held by telephone conference.

Board meetings involve reviews of financial and business performance against the plan approved by the Board. Risk management review, both at Group level and also for each of the business units, is embedded in the reporting system. On a rotating basis, the Board receives presentations from the business units 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 and recommending a course of action.

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.

# Corporate Governance *continued*

The Non-Executive Directors meet without the Executive Directors at least annually, with the Chairman leading these meetings. The Non-Executive Directors also meet annually without the Chairman in attendance. The Deputy Chairman 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 Governance 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 meet these principles.

Nigel Keen, Chairman, has been a member of the Board since February 1999. He has a degree in engineering from Cambridge University, is a Fellow of the Institute of Chartered Accountants and of the Institution of Engineering and Technology and has been involved in the formation and development of high technology businesses for more than thirty years. He fulfilled the independence criteria at the time of his appointment as set out in the Governance Code. He is Chairman of the Nomination Committee and is also currently Chairman of the Remuneration Committee as the Board considered that whilst the Company was a SmallCap company it was appropriate and necessary for the Chairman of the Board to also be Chairman of the Remuneration Committee. The Board is actively looking to recruit a new Non-Executive Director with the appropriate mix of skills to take over the Chair of the Remuneration Committee in due course. Nigel Keen also serves as Chairman of Oxford Instruments Pension Trustee Limited, the Trustee of the Company's UK defined benefit pension scheme. The Board of the Company and the Board of the Trustee to the Pension Scheme have each independently considered whether it is appropriate to have the Chairman of the Company as Chairman to the Board of the Trustee of the Pension Scheme, notwithstanding the potential conflicts of interest inherent in the same person holding both these positions, and they each have unanimously confirmed that they believe that it is in the interest of all parties for this to continue.

Mike Brady, Deputy Chairman and Non-Executive Director, has been a member of the Board since June 1995. He is Emeritus Professor in the Department of Oncology and Biology at the University of Oxford, having recently retired as BP Professor of Information Engineering, and is one of the UK's leading engineers. He brings a depth of technical expertise to Board discussions. His independence of mind gained from a career as a senior academic supervisor of research programmes in a major technical discipline at Oxford University, his technical expertise as the only Non-Executive Director from a scientific profession and the value of that expertise to Board discussions, the breadth of his professional and business interests unrelated to the Group, his continual constructive probing of the technical aspect of proposals being considered by the Board and the composition of the Board generally leads the Board to conclude that it is appropriate that he should continue in office. Although the Board continues to value Mike's input and does not regard this input as being less valuable as a result of his tenure as a director of the Company, the Board has reviewed Mike's status as an independent director and in the light of guidance by the Governance Code has determined that he should no longer be considered independent. Mike is a member of the Nomination Committee.

Mike Hughes, Senior Independent Non-Executive Director, has been a member of the Board since November 2004. He is currently the Chairman of EA Technology Ltd and a Non-Executive Director of South Staffordshire Water Ltd. Previously he held senior management positions within GEC before becoming CEO of Midlands Electricity plc and then Executive Vice President of GPU Inc International Operations Group. Mike is a member of the Audit, Remuneration and Nomination Committees.

Jock Lennox was appointed to the Board as an Independent Non-Executive Director on 1 April 2009. Until April 2009, he was a Senior Audit Partner at Ernst & Young where he gained extensive experience advising clients in a variety of industries on financial reporting, financing, transactions and international expansion. Jock is Chairman of the Audit Committee and is a member of the Remuneration and Nomination Committees. The Board believes that Jock's skills, experience and knowledge enhance and maintain an effective Board and provide a well qualified Chairman of the Audit Committee.

Bernard Taylor was appointed to the Board as an Independent Non-Executive Director in November 2002. He has worked at various City institutions, including Robert Fleming & Co. Ltd where he was Deputy Chairman and Chief Executive and at J.P. Morgan plc where he was Vice-Chairman (Investment Banking). He is Vice Chairman of Evercore Partners and Chief Executive of its European business. He is also a fellow of the Royal Society of Chemistry, Chairman of ISIS Innovation Ltd and a member of The Council of the University of Oxford. Bernard will be retiring from the Board at the Company's forthcoming AGM.

Further information on each of the Non-Executive Directors is to be found in the Directors' Biographies on pages 30 to 31.

### Independence of Non-Executive Directors

In the opinion of the Board, Mike Hughes, Jock Lennox and Bernard Taylor are independent and Mike Brady is no longer considered independent in accordance with the guidelines set out in the Governance Code. The Board considers that they are each independent in character and judgement and do not have relationships which are likely to affect their judgement. 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.

### Term of appointment of Non-Executive Directors

Each Non-Executive Director was appointed for an initial term of three years. In line with provision B.7.1 of the Governance Code, the Board has determined that all directors of the Board are to be subject to annual election by shareholders and accordingly the appropriate resolutions will be put to shareholders at the Company's forthcoming AGM.

## BOARD DEVELOPMENT AND EVALUATION

### Board development

On appointment, Directors undertake an induction process which is designed to develop knowledge and understanding of the Group's businesses 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 business units' senior management teams present to the Board on a regular basis.

Non-Executive Directors are encouraged to meet individual members of the senior management team and have done so during the year under review.

Throughout the year, Non-Executive Directors attend Oxford Instruments' events, exhibitions and award presentations.

The Company Secretary and her 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 Group'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 light of the provisions of Section B.6.2 of the Governance Code which expects that an externally facilitated evaluation of the Board be carried out at least triennially, John Stopford, an emeritus professor of the London Business School, carried out a "light touch" evaluation of the governance review process in 2011. He found that the process described below effectively reviews the mechanics of the operation of the Board and he found the written statement on governance each director completes a very helpful input. His observation was that the Board was functional and effective. Unfortunately he died before being able to issue his final report although this had already been prepared in final draft form. In light of Professor Stopford's observations, the questionnaires, which are the starting point of the evaluation process, have been remodelled to collect a more rounded view of the operation of the Board and its Committees.

For the year ended 31 March 2012, the Board has completed its annual effectiveness evaluation exercise, including a specific review of the effectiveness of its principal committees and members. This was an internal exercise under the control of the Chairman 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. In addition, each director has prepared a written statement concerning governance of the Company and has discussed the statement with the Chairman at the individual one-to-one interviews which the Chairman holds with each director. The Chief Executive is also involved in the process by giving his input on the way the Board helps him in his role. The output from these evaluations allows the Chairman to review objectively the overall balance of the Board. The Non-Executive Directors meet annually to appraise the Chairman's performance.

## 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 table on the following page sets out the frequency of, and attendance at, Board and principal Board Committee meetings for the year to 31 March 2012.

# Corporate Governance *continued*

## Attendance at meetings

| | Main Board | Audit Committee | Remuneration Committee | Nomination Committee |
|---|---|---|---|---|
| Number of meetings held | 11 | 5 | 5 | 4 |
| Nigel Keen | 11 | 5[1] | 5 | 4 |
| Jonathan Flint | 11 | 5[1] | 1[1] | 3[1] |
| Kevin Boyd | 11 | 5[1] | – | – |
| Charles Holroyd | 10 | 3[1] | – | – |
| Mike Brady | 11 | 5[1] | 5[1] | 4 |
| Mike Hughes | 11 | 5 | 5 | 4 |
| Jock Lennox | 11 | 5 | 5 | 4 |
| Bernard Taylor | 11 | 5 | 5 | 4 |

[1] Attended by invitation

## BOARD COMMITTEES

The Board has formed the following Committees: Nomination, Remuneration, Audit and Administration.

Membership of Board Committees, which is set out on page 30, is determined by the Board and is reviewed regularly. The written terms of reference of the Board Committees are reviewed annually by each Committee and the Board and are available on the Company's website at www.oxford-instruments.com/investors and from the Company on request. They will be on display at the Annual General Meeting.

## NOMINATION COMMITTEE

The Nomination Committee comprises all the Non-Executive Directors, under the chairmanship of the Chairman of the Board. 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.

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. The Nomination Committee takes external advice when considered appropriate.

During the year, the Board and the Nomination Committee have reviewed the composition of the Board. The length of service of its Non-Executive Directors, the promotion of the Company into the FTSE 250 and the changing requirements of the Governance Code for FTSE 350 companies, together with further reflection on diversity within the Company, have led it to conclude that changes to the membership of the Board and its Committees need further consideration. Accordingly a sub-committee has been established whose terms of reference are, with the help of executive search consultants Korn/Ferry, to evaluate the balance of skills, knowledge and experience on the Board and to identify appropriate candidates for non-executive director positions on the Board. Accordingly, using information it has gathered, taking into account diversity within the Board and bearing in mind the desire to find a successor to the current Chairman of the Remuneration Committee, it has drawn up descriptions of the role and desired capabilities for candidates to help in the search of new non-executive directors. The Committee is currently in the process of drawing up a shortlist of qualifying candidates. These candidates will meet with the Chairman and the Deputy Chairman and a final selection of potential appointees will meet several Directors individually. Following these meetings, the Nomination Committee will consider each Director's feedback and make a final recommendation to the Board concerning any appointment or appointments.

On joining the Board, new Non-Executive Directors are provided with 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.

The Nomination Committee recommends to the Board whether a Non-Executive Director's appointment should be renewed each year, taking into account the performance of the individual.

The Nomination Committee also annually reviews the performance of the Chief Executive and succession planning within the business.

## REMUNERATION COMMITTEE

The Remuneration Committee comprises all the Independent Non-Executive Directors and the Chairman of the Board. The Chairman of the Board, Nigel Keen, who fulfilled the independence criteria at the time of his appointment as set out in the Governance Code, is Chairman of the Remuneration Committee because the Board considers that in a SmallCap company it is essential that the Chairman be involved in setting remuneration policy. The Board is working to appoint new Non-Executive Directors during the course of 2012 and 2013 and is expecting that one of these appointments will also be able to serve as Chairman of the Remuneration Committee. The members of the Committee are appointed by the Board.

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 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 43 to 52.

## AUDIT COMMITTEE

The Audit Committee comprises all the Independent Non-Executive Directors and is chaired by Jock Lennox. The Chairman and Deputy Chairman of the Board and members of senior management such as the Chief Executive and Group Finance 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 at the half year, at the planning stage before the audit and 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 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 appointment, removal and independence of the Group's external auditors, the resourcing and plans of the Internal Audit function and the adequacy and effectiveness of the financial control environment.

The Audit Committee's terms of reference include all matters indicated by the Governance 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 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 Audit Committee reviews all public statements containing financial information, including the half year and annual financial statements and interim management 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 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.

A review takes place annually of the performance of the external auditors following the completion of the annual audit. To assess the effectiveness of the external auditors, the Audit Committee reviews:

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

# Corporate Governance *continued*

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 safeguard auditor objectivity and independence when the external auditor provides non-audit services, the Chairman of the Audit Committee reviews the provision of non-audit services by the external auditors where the proposed fee exceeds £20,000 and with formal Audit Committee approval where fees are £50,000 or above. Competitor quotes are obtained where the proposed fee is in excess of £100,000.

Details of the audit fees, together with fees for non-audit services for the year, are set out in note 3 (page 74) to 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 financial 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 management policies
- Any internal control findings reported by the external auditor
- 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 the outcomes of the planned activity
- Internal Audit reports on key audit areas and significant control environment deficiencies
- Reports on the systems of financial controls and financial risk management

The Group's Business Malpractice Policy comprises an internal process that has been communicated directly to all employees by which employees can raise a concern, including concerns relating to fraud, damage to the environment, criminal activity or danger to health and safety, in the knowledge that it will be taken seriously, treated as confidential and that no action will be taken against them. There is also provision within the Policy for employees to raise concerns directly with the Senior Independent Director. The Policy is reviewed annually by the Committee.

## ADMINISTRATION COMMITTEE

The Administration Committee consists of a minimum of two Directors and deals with items of a routine and administrative nature. The Board receives a summary outlining all matters decided by the Administration Committee since the previous Board Meeting.

## INVESTOR RELATIONS

The Group places considerable importance on regular communications with its shareholders with whom it has an ongoing programme of dialogue. All shareholders 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 and the Senior Independent Director make themselves available to meet shareholders, as required.

All Group announcements are posted on the Group website, www.oxford-instruments.com/investors, as soon as they are released. The Investor Relations section of the website provides financial and other information on the Group and the website itself carries additional information on the Group's products, services and markets.

## ANNUAL GENERAL MEETING (AGM)

The Annual General Meeting is an opportunity for the Board to meet shareholders. At its AGM, the Group complies with the provisions of the Governance Code relating to the disclosure of proxy votes, the separation of resolutions and the attendance of Committee Chairmen. The Group arranges for the Annual Reports and Financial Statements and related papers to be posted on its website and, where shareholders have elected to receive paper copies, 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 11 September 2012 at the Group's offices in Tubney, Oxfordshire.

## 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 formulated 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. The Financial review (pages 16 to 23) gives an overview of the major risks and uncertainties faced by the Group.

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 AUDIT

The Group has an established process of internal audits of both financial and non-financial areas of all the Group's operating businesses and Head Office. Non-financial audits are overseen by the Board and financial audits are overseen by the Audit Committee.

- Non-financial audits are carried out in the areas of Operations, Human Resources, IT, Health and Safety and Research and Development. These audits are carried out by the Group functional heads (or their delegate). Audit cycles vary between one and four years dependent on the risk profile of that function in each operating business.

- Financial audits are carried out by members of the finance function who are qualified accountants. Approximately half of the audits are carried out by members of the Group finance team and half by the operating businesses' Finance Directors as it is felt that internal audits carried out on peer businesses allow a sharing of best practice. In Japan, internal audits are carried out by an external firm of auditors due to the significant language barrier and the Head Office treasury function is reviewed by external consultants. Financial internal audits occur on a three year cycle unless risk factors trigger a more frequent occurrence.

Following an internal audit, local management are asked to comment on any issues raised and put in place remedial action plans. On a bi-annual basis, a summary of the results of the non-financial audits is reported to the Board and a summary of the results of the financial audits is reported to the Audit Committee.

There is a review at least annually of the internal audit process which determines whether it continues to be fit for purpose or needs to be amended. It has been determined that it continues to be appropriate for internal audits to be carried out by Group personnel as it is felt that this is the most appropriate way for a business of the size and complexity of the Group. This year the annual review has concluded that it is now appropriate to recruit a risk manager with specialist knowledge of internal audit. This appointment will manage the internal audit process and will perform some of the financial audits.

## INTERNAL CONTROL

The Board is ultimately responsible for the Group's system of internal control 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 internal control procedures have been in place for the year under review and up to the date of approval of the report. They are regularly reviewed by the Board and accord with the Turnbull guidance. These controls include financial, operational, compliance and risk management.

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

- there is a formal schedule of matters reserved to the Board for decision; other than these matters, the Board delegates to the Chief Executive and reviews the delegation of authorities 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 Finance 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 and 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 Finance 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 three year planning model of the Group and its individual 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

# Corporate Governance *continued*

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. 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 at least the first twelve months against the original proposal is reviewed by the Board;
- each Group site, except for representative sales offices, is required to submit a self assessment internal control questionnaire annually;
- internal audit is carried out through a system of regular reviews of the financial and non-financial internal controls at each site. These reviews are coordinated by a manager in Head Office.
  - financial internal audit visits are conducted by accountants from other parts of the Group and in Japan, due to language differences, by local external auditors;
  - non-financial internal audit visits are conducted by the Group's functional heads, or their delegates;
  - 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 Finance Director or, for non-financial audits, with the relevant functional head to remedy any significant control weaknesses that are identified from completion of the internal control questionnaire or as a result of the internal audit. The results of audit reviews are reported to local management, the Group Finance Director and the Audit Committee or Board and checks on the progress of the action items arising are made;
- the Board receives regular updates on treasury, tax, property, pensions, insurance, litigation, human resources, corporate social responsibility, business ethics and health and safety matters;
- authorisation limits are set at appropriate levels throughout the Group; compliance with these limits is monitored by the Group Finance Director and internal audit;
- all requests to quote for substantial fixed price contracts are reviewed by the Chief Executive and/or the Group Finance Director 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 Group has its own trustee representatives, involves its own independent actuary with whom actuarial assumptions are reviewed, agrees the investment policy with the Trustee, ensures there is an independent actuarial valuation every three years and agrees funding levels to provide adequate funding to meet the benefit payments of the members as they fall due.

**Susan Johnson-Brett**
Company Secretary

12 June 2012

# Directors' Remuneration Report



The Remuneration Committee (the "Committee") is responsible for recommending to the Board the remuneration packages for Executive Directors and the bonus and share incentive strategy for the Group's executive management. The Board as a whole is responsible for determining the remuneration of the Non-Executive Directors, including the Chairman.

The role of the Committee includes:

- considering and determining the remuneration policy for the Executive Directors and executive management;
- within this agreed policy, considering and determining the total remuneration packages of each Executive Director of the Company;
- approving the design and performance targets for all performance-related plans as well as the overall total annual payments made under such plans;
- reviewing and noting remuneration trends across the Group; and
- determining the policy for pension arrangements, service agreements and termination payments to Executive Directors and the executive management.

The Committee comprises all the Independent Non-Executive Directors and the Chairman of the Board. The Chairman of the Board, Nigel Keen, who fulfilled the independence criteria at the time of his appointment as set out in the UK Corporate Governance Code (the Governance Code), is Chairman of the Committee. Nigel Keen was Chairman of the Committee at the time the Company listed on the FTSE Small Cap Index. As a SmallCap company this appointment recognised his significant experience of the role at the Company and elsewhere. Now that the Company is listed on the FTSE 250 index, the Board is looking to recruit a new Non-Executive Director with the appropriate mix of skills to take over the Chair of the Committee.

The Committee normally meets at least four times a year and the members of the Committee are appointed by the Board.

The Chief Executive, the HR Director and other executives are invited to attend Committee meetings as deemed appropriate. For example the Chief Executive is able to make a significant contribution when considering the performance of other Executive Directors and on the significant Group-wide changes in salary structure and terms and conditions affecting other employees at senior executive level. However, no Executive Director is present when the Committee is determining his or her remuneration.

The Committee acts within its agreed written terms of reference (which are published on the company's website – www.oxford-instruments.com/investors) and complies with the provisions of the Governance Code regarding best practice on the design of performance-related remuneration.

The performance of the Committee is reviewed at least once a year as part of the wider Board evaluation process.

During the year, the Committee:

- reviewed the remuneration packages of the Executive Directors;
- reviewed long term incentive plans;
- reviewed and agreed the performance targets for the 2011/12 bonus and assessed the extent to which the performance conditions for the 2010/11 bonus were achieved;
- reviewed the performance conditions applying to the long term incentive awards;
- assessed the achievement of the performance conditions on outstanding long term incentive awards;
- monitored the application of the Company's shareholding guideline;

# Directors' Remuneration Report *continued*

- reviewed the overall salary increase pool, bonus payments and pay packages for the Group as a whole and received an update on any significant Group-wide changes in senior employees' salaries and terms and conditions; and
- carried out its annual evaluation of the Committee as part of the governance activities undertaken by the Board.

The Committee takes independent advice from New Bridge Street (an Aon Hewitt company). Aon Hewitt provided no other services to the Company during the year. The Committee also sought advice from Laytons, the Company's lawyer.

The report is divided into two parts:

- Part A: which is not subject to audit and explains the Company's current remuneration policy for Executive Directors and the executive management; and
- Part B: which is audited and shows how the remuneration policy has been applied to Executive Directors for the year under review and contains tables detailing the Executive Directors' emoluments for the year ended 31 March 2012, their accrued pensions and their interests under the Company's long-term incentive arrangements.

## PART A

### Remuneration policy

The Company has an incentive-driven remuneration policy that seeks to reward executives fairly and responsibly based on Group performance and their individual contribution. Overall the remuneration package aims to be appropriate to attract, motivate and retain high calibre executives.

The remuneration policy promotes the delivery of the Group's strategy and seeks to align the interests of Directors and shareholders. The Committee regularly reviews the link between performance and strategy and believes that measuring the success of the strategy through sustained and significant earnings growth and the delivery of superior long-term shareholder returns ensures a strong performance pay related culture. When appropriate, the Chairman has contact with principal shareholders regarding remuneration policy.

The Committee considers carefully the motivational effects of the incentive structure in order to ensure that it is effective and does not have any unintentionally negative impact on matters such as governance, environmental or social issues. More generally, the Committee ensures that the overall remuneration policy does not encourage inappropriate operational risk.

The Committee reviews the Executive Directors' packages annually taking account of the level of remuneration paid to comparable positions in similar companies within the industry, as well as pay and conditions throughout the remainder of the group. Comparative pay data is used carefully recognising the potential for an upward ratchet in remuneration caused by over reliance on such data. The policy for Executive Director remuneration can be summarised as follows:

| Fixed remuneration | | | Performance-related remuneration | |
|---|---|---|---|---|
| **Base salary** | **Benefits** | **Pensions** | **Annual bonus** | **Long-term incentives** |
| | E.g. car benefit, life & health insurance | Defined contribution | Measured over 1 year | Measured over 3 years |
| | | | Corporate financial measures and specific strategic objectives | Executive Share Option Scheme (ESOS) – based on EPS performance |
| | | | Max 100% of salary for CEO & FD | Senior Executive Long-Term Incentive Scheme (SELTIS) – based on TSR performance |
| | | | Max 75% of salary for Group Business Development Director | |
| **Shareholding guideline of 100% of base salary for Executive Directors** (to be built up by retaining shares on exercise of options under the ESOS and SELTIS granted from 2007 equal to a minimum of 50% of the net gain) | | | | |

### Company performance
In 2011, the Company successfully completed its five year plan to double the size of its business and improve net margins by ten percentage points through organic growth. Over the last three years the share price has risen from £1.10 on 31 March 2009 to £12.16 on 31 March 2012. Over the same period, adjusted profit before income tax has risen from £11.1m to £42.0m.

The Company is now one year into its next phase of growth and delivering on its three year plan, the 14 Cubed Plan. This is an ambitious plan, the objective of which is to target an average compound annual revenue growth rate of 14% per year and to have a net return on sales of at least 14% by 2014. Progress to date is in line with meeting these objectives. The Group has delivered an excellent result in the year to 31 March 2012 driven by new product introductions and a market environment which has remained robust for its products. Revenue has grown by 28.6% to £337.3 million (2011: £262.3 million); excluding acquisitions, organic growth was 15.1% while adjusted profit before tax grew by 60.3% to £42.0 million (2011: £26.2 million). Adjusted operating margin also continued to increase, rising to 12.5% from 10.7% in the prior year in line with the 14 Cubed Plan. The proposed dividend for 2011/12 is 11.1% higher than the previous year.

The Group's broad spread of geographies and technologies and strong pipeline of new products should help it to remain resilient in the event of a sustained global economic downturn. The Group completed three acquisitions in the year ended 31 March 2012 and it is continuing its active pursuit of acquisitions that have the potential to enhance shareholder value and add to its range of technical capabilities. At the same time continued investment in the new product pipeline is aimed towards driving organic growth. Trading remains strong and the Board remains confident in the continued growth prospects of Oxford Instruments and the Group's ability to deliver sustained shareholder value.

In September 2011, the Group was admitted to the FTSE 250 index and in March 2012 it won the prestigious PLC award for best company in 2011. Jonathan Flint and his team have achieved tremendous results and the Committee is concerned to ensure that the remuneration policy continues to support and reflect the business strategy to drive continued growth and returns for the Group's shareholders.

### Reasons for the review of Executives' remuneration packages
The 14 Cubed Plan reflects a step change in the size and complexity of the Group as well as the roles of the Executives. The Committee is keen, given this and the prolonged period of strong performance of the Group, to ensure that the Executives' remuneration packages remain appropriate.

The Committee has, therefore, carried out a review of the remuneration packages of the Executive team and has noted that the Executives' base salaries and the resulting total compensation are below mid-market levels. Given the importance of the base salary level in determining the overall level and balance of the package, the Committee has determined that base salaries should be increased.

The Committee is very conscious of the need to pay no more than is necessary to recruit and retain key executives particularly in the current climate. It is also accepted that simply moving into the FTSE 250 does not in itself merit increases in remuneration. However the Committee believes that:

- due to the outstanding performance of the individual Executives and of the business;
- because of the increasingly demanding roles that the Executives hold in an increasingly complex business. For instance its international reach continues to make growing demands on the Executives; its Chinese business is the fastest growing in the Group and it has a new office in India; a focused plan of acquisitions continues to be pursued; its technology capability continues to be expanded and overall the business is more than twice the size it was when the Chief Executive and Group Finance Director joined the Group; and
- to ensure retention of the Executives by the business;

the Executive Directors' remuneration packages need to be substantially enhanced.

### Base salary
The Committee reviews salaries annually. When setting Executive Directors' salaries, the Committee takes account of the Director's experience, performance and responsibilities as well as the performance of the Company, the complexity of the role within the Group for which the Executive Directors are responsible and salary increases for employees generally. It also has regard to market data for comparable positions in similar companies within the industry. The Committee reviews external benchmarking data periodically, and this information is used to assist in decision making. However the Committee is mindful that benchmark data is only one factor to consider when reviewing board remuneration packages.

# Directors' Remuneration Report *continued*

The Committee considers that the Chief Executive's and Group Finance Director's positioning in terms of salary and total pay is below market. With this in mind, with effect from 1 July 2012 the Executive Directors' salaries will be increased as set out below.

| Name | Salary prior to 1 July 2012 ('000) | Salary wef 1 July 2012 ('000) | Percentage increase |
|---|---|---|---|
| Jonathan Flint | £350 | £420 | 20.0% |
| Kevin Boyd | £242 | £283 | 16.9% |
| Charles Holroyd | £200 | £210 | 5.0% |

Furthermore, it is intended that, for the year commencing 1 July 2013, Jonathan Flint's salary will be increased to £450,000 (an increase of 7.1% on the prior year) and Kevin Boyd's salary will be increased to £300,000 (an increase of 6% on the prior year). These further increases are predicated on continuing strong performance of the business.

Following this increase in base salary the Chief Executive and Group Finance Director will have a total target remuneration of around the median of a benchmark group of companies similar to Oxford Instruments and of a benchmark group comprising the bottom half of the FTSE 250.

The Committee considers that these increases in the Executive Directors' salaries are merited in recognition of the increasingly demanding roles they have in the business and the complexity of the Group as well as their personal contribution to its success.

The Committee has also sought the view of shareholders holding more than 50% of the issued share capital of the Company to the increases it proposes awarding. The Committee has taken into account all the views expressed from those consulted in arriving at the increases in salary levels and their subsequent evolution in the light of the performance of the Company.

### Senior Management and Staff salaries

Senior Management salaries for the salary year starting 1 July 2012 are being reviewed dependent on individual performance within a range of 4% to 15% per annum and with annualised increases across the UK expected to average 4.5%. In addition, under a Gainshare bonus plan, staff not eligible under management or other bonus plan will receive a payment of up to 2% of salary provided certain Company performance criteria are met.

### Annual Bonus

Executive Directors and other employee groups are eligible to participate in a non-pensionable discretionary annual bonus. The Committee sets targets for Executive Directors and the executive management which are primarily based on the achievement of challenging corporate financial targets, with the balance payable for meeting specific strategic objectives.

For the year ended 31 March 2012, the bonus awarded was based against the following metrics: organic sales, profit, cash generation and other strategic objectives. The level of payment for the year took account of the Company's very strong performance with organic sales up 15.1%, adjusted profit before income tax up 60.3% and net cash position of £35.1m.

The on-target and maximum bonus potentials for the Executive Directors as well as the amount actually payable for the year ended 31 March 2012 are set out below.

| | On-target bonus (% of salary) | Maximum bonus (% of salary) | Actual bonus payable for 2011/12 (% of salary) |
|---|---|---|---|
| Jonathan Flint | 75% | 100% | 100% |
| Kevin Boyd | 75% | 100% | 100% |
| Charles Holroyd | 55% | 75% | 75% |

### Annual Bonus plan for 2012/13

The target and potential maximum bonus potential of the Executive Directors will be unchanged for the financial year to 31 March 2013. The performance metrics will be based on organic sales, profit, cash generation and other strategic objectives.

## Long-Term Incentive Schemes

The Company operates two discretionary plans to incentivise Executive Directors and employees:

- the Executive Share Option Scheme (ESOS); and
- the Senior Executive Long-Term Incentive Scheme (SELTIS).

Under the ESOS executives are granted options to purchase shares at an exercise price based on the prevailing share price on the date of grant. Options may be exercised between three years and ten years from the date of grant subject to the achievement of performance conditions measured over three years. At the discretion of the Committee, the gain made on an unapproved option may be settled in the form of issuing fully paid up shares equivalent to the gain. Under the SELTIS executives are granted options to purchase shares at zero cost. Options may be exercised between three and seven years from the date of grant under the SELTIS and are subject to the achievement of performance conditions measured over three years.

As set out below, the ESOS performance condition provides a focus on share price growth and measures performance using adjusted earnings per share. The SELTIS performance condition concentrates on stock market out-performance by measuring Total Shareholder Return relative to a comparator group of companies. The Committee considers that the combination of these different plans and measures provides a good focus on the outcomes of the Company strategy together with sustainable improvements in long-term profitability. The Committee considers that weighting the long-term incentive policy towards the ESOS provides strong ongoing alignment with shareholder interests.

The performance conditions applying to the 2011 ESOS and SELTIS awards are set out on page 51. The Committee will set the performance conditions for the 2012 awards which are normally granted in December at that time taking account of the Company's internal financial planning, market forecasts and the business environment.

## Shareholding guidelines

The Committee, in 2007, established shareholding guidelines which encourage the Executive Directors to build up a shareholding equivalent in value to 100% of basic salary. Until the guideline is met in full whenever ESOS or SELTIS options are exercised Executive Directors are expected to retain or purchase shares equivalent to the value of 50% of the net amount realised from exercise of the options after allowing for tax payable.

As at 31 March 2012, Jonathan Flint, Kevin Boyd and Charles Holroyd held shares in the Company valued at 552%, 335% and 378% of salary respectively. They each currently hold shares with a value in excess of 100% of basic salary and are thus complying with the current guidelines.

## All-Employee Share Schemes

Up until 1 April 2008, the Company granted options under a SAYE scheme. The SAYE scheme is administered in accordance with Inland Revenue guidelines and there are no performance conditions attached to exercise. Currently there remain no options exerciseable under this scheme.

The SAYE scheme has been replaced by a Share Incentive Plan (SIP) which since 1 April 2008 has been open to all UK permanent staff employed for at least six months. The Executive Directors all participate in the SIP to the maximum extent permitted by HMRC. The Company offers a 1:5 match for partnership shares purchased by employees. During the year, each of the Executive Directors were awarded 33 matching shares.

## Dilution limits

The ESOS, SELTIS and SAYE share option schemes provide that overall dilution through the issuance of new shares for employee share schemes should not exceed an amount equivalent to 10% of the Company's issued share capital over a 10 year period. Awards made under the SELTIS scheme prior to 2009 and shares required by the SIP are satisfied by market purchased shares.

The Committee monitors the position prior to the making of any award under these share option schemes to ensure that the Company remains within this limit. As at the date of this Report, the Company's headroom position remains within the 10% limit.

# Directors' Remuneration Report *continued*

## Contracts

Details of the service contracts of the Executive Directors are as follows:

| | Contract date | Notice period | Unexpired term of contract |
|---|---|---|---|
| Jonathan Flint | 21 February 2005 | 12 months | Rolling contract |
| Kevin Boyd | 9 May 2006 | 12 months | Rolling contract |
| Charles Holroyd | 22 November 2005 | 12 months | Rolling contract |

The service contract of each Executive Director may be terminated on 12 months' notice in writing by either side, in accordance with current market practice, with the Company having a right to pay 12 months' salary in lieu of notice if it so determines. The Committee's policy on early termination is to provide compensation which reflects the Company's contractual obligations (which do not include entitlement to bonus after the date of notification of termination), whilst recognising the principle of mitigation of losses.

## 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.

Jonathan Flint holds positions as a member of the Council of the Institute of Physics and a member of the advisory board of the ISIS neutron spellation instrument. During the year he received fees of £510 from ISIS (2011: £850).

Kevin Boyd is a Non-Executive Director of Guidance Ltd. During the year he received fees of £18,300 (2011: £16,875).

## Non-Executive Directors

Under an arrangement between the Company and Imperialise Limited, Nigel Keen is retained to act as Chairman of the Company and Chairman of the Trustee to the Oxford Instruments Pension Scheme and he must account to Imperialise Limited for his services. His current term of appointment commenced on 25 February 2011 and is for three years. This arrangement can be terminated by either party at any time by the giving of 6 months' notice. Imperialise Limited is paid a sum equivalent to the employer's national insurance contributions on these fees as it 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. Nigel Keen's fees for acting as Chairman to the Trustee of the Oxford Instruments Pension Scheme are also paid to Imperialise Limited. The Company also paid to Imperialise Limited a sum equivalent to the employer's national insurance contribution on these fees.

For the year to 31 March 2012, Nigel Keen's fees as Chairman were £127,000 (2011: £102,475) and as Chairman to the Trustee were £25,000 (2011: £20,458) 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 both these fees of £21,076. After careful consideration by the Committee, it was decided that fees payable for Nigel Keen as Chairman to the Board should be uplifted. In making this decision, it took into account the strong performance of both the Chairman and the Group, the increasingly complex business and the increasing demands that this brings to the role of chairman, and the promotion of the Company to the FTSE 250. It also reviewed benchmark data provided by the Committee's advisor which showed that the Chairman's fee was below median of the comparator groups. It was agreed therefore that the Chairman's fees be increased to £161,000 with effect from 1 April 2012. Nigel Keen did not take part in these meetings.

Non-Executive Directors do not have service contracts but are appointed for an initial period of three years with subsequent reviews. They do not have a contract of employment and their appointment can be terminated without notice.

| | Date of appointment | Notice period |
|---|---|---|
| Nigel Keen | 25 February 2011 | 6 months |
| Mike Brady | 1 August 2010 | None |
| Mike Hughes | 3 July 2010 | None |
| Jock Lennox | 1 April 2009 | None |
| Bernard Taylor | 13 November 2011 | None |

Non-Executive Directors receive fixed fees, agreed by the Board (but not the Non-Executive Directors) 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.

During the year, the Non-Executive Directors received a base fee of £30,000 and Mike Brady, Mike Hughes and Jock Lennox received an additional fee of £5,000 per annum for acting as Deputy Chairman, Senior Independent Director and Chairman of the Audit Committee respectively. After reviewing remuneration data of comparative companies, it has been agreed that from 1 April 2012, the base fee is to be increased to £40,000 per annum. This is the first increase in Non-Executive Director fees since October 2008. The Non-Executive Directors did not take part in these meetings.

### PART B: THE FINANCIAL INFORMATION IN THIS PART OF THE REPORT HAS BEEN AUDITED

### Executive Directors' Emoluments

The remuneration paid to the Executive Directors during the year under review is summarised in the table below:

| | Salary[3] £000 | Benefits[1] £000 | Annual bonus £000 | Total remuneration 2012 £000 | Total remuneration 2011 £000 | Pension contribution 2012 £000 |
|---|---|---|---|---|---|---|
| Jonathan Flint[2] | 346 | 17 | 350 | 713 | 671 | 48 |
| Kevin Boyd | 239 | 14 | 242 | 495 | 467 | 33 |
| Charles Holroyd | 198 | 10 | 150 | 358 | 333 | 28 |
| **Total** | 783 | 41 | 742 | 1,566 | 1,471 | 109 |

[1] Benefits comprise provision of a car or car allowance and health insurance.

[2] In 2010, the Company and Jonathan Flint purchased a house in joint ownership with the Company contributing £300,000. During the year Jonathan Flint bought a further proportion of the house by paying £99,900 to the Company. This proportion was acquired based on the original purchase price. An independent valuation established that the price paid by Jonathan Flint was in excess of the market value of the house at the time of payment. Jonathan Flint lives in the house and paid a full commercial rent amounting to £8,147 during the financial year for use of the Company asset.

[3] Under the terms of a salary sacrifice arrangement, UK employees are able to elect to cease making personal contributions into relevant pension schemes. Each employee's salary is reduced by the amount of their pension contributions and the Company pays the same amount directly to the pension schemes. Accordingly, the annual salaries of Jonathan Flint, Kevin Boyd and Charles Holroyd were reduced to £344,297, £222,033 and £181,480 respectively. For reasons of clarity, the salaries shown in the table above for these Directors are the amount they would have been paid had they not made such salary sacrifices. These 'notional' base salaries are used to calculate salary linked remuneration such as bonus and some benefits.

### Remuneration of the Chairman and Non-Executive Directors:

Remuneration paid to the Chairman and Non-Executive Directors during the year under review are set out below. They receive no other benefits.

| | 2012 | 2011 |
|---|---|---|
| Nigel Keen, Chairman[1] | 145 | 116 |
| Mike Brady | 35 | 35 |
| Mike Hughes | 35 | 35 |
| Jock Lennox | 35 | 35 |
| Bernard Taylor | 30 | 30 |
| **Total** | 280 | 251 |

[1] Nigel Keen's fees above include a payment of £17,526 to Imperialise Limited in respect of employers' national insurance contributions. In addition, he received fees of £25,000 for his services as Chairman to the Trustee of the Oxford Instruments Pension Scheme together with a payment of £3,450 to Imperialise Limited in respect of employers' national insurance contributions.

# Directors' Remuneration Report *continued*

## OUTSTANDING SHARE INCENTIVE AWARDS

As at the 31 March 2012, the outstanding options for Jonathan Flint, Kevin Boyd and Charles Holroyd under the ESOS, SELTIS and SAYE schemes were as follows:

| | Scheme | March 2012 | Movements during the year: Granted | Exercised[1] | Lapsed | March 2011 | Exercise price | Share price on date of grant | Date of grant | Date for earliest exercise | Date for latest exercise |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Jonathan Flint[2] | ESOS | 70,700 | 70,700 | | | 0 | £9.90 | £9.87 | 14/12/11 | 14/12/14 | 13/12/21 |
| | ESOS | 55,000 | | | | 55,000 | £7.05 | £7.02 | 07/01/11 | 07/01/14 | 06/01/21 |
| | ESOS | 140,000 | | | | 140,000 | £2.035 | £2.03 | 17/12/09 | 17/12/12 | 16/12/19 |
| | ESOS | 0 | | 220,000 | | 220,000 | £1.35 | £1.33 | 16/12/08 | 16/12/11 | 15/12/18 |
| | ESOS | 0 | | 100,000 | | 100,000 | £2.32 | £2.30 | 28/09/07 | 28/09/10 | 27/09/17 |
| | ESOS | 0 | | 74,788 | | 74,788 | £2.19 | £2.18 | 15/07/05 | 15/07/08 | 14/07/15 |
| | SELTIS | 17,600 | 17,600 | | | 0 | Nil | £9.87 | 14/12/11 | 14/12/14 | 13/12/18 |
| | SELTIS | 27,500 | | | | 27,500 | Nil | £7.02 | 07/01/11 | 07/01/14 | 06/01/18 |
| | SELTIS | 70,000 | | | | 70,000 | Nil | £2.03 | 17/12/09 | 17/12/12 | 16/12/16 |
| | SELTIS | 0 | | 110,000 | | 110,000 | Nil | £1.33 | 16/12/08 | 16/12/11 | 15/12/15 |
| Kevin Boyd | ESOS | 48,700 | 48,700 | | | 0 | £9.90 | £9.87 | 14/12/11 | 14/12/14 | 13/12/21 |
| | ESOS | 38,000 | | | | 38,000 | £7.05 | £7.02 | 07/01/11 | 07/01/14 | 06/01/21 |
| | ESOS | 95,000 | | | | 95,000 | £2.035 | £2.03 | 17/12/09 | 17/12/12 | 16/12/19 |
| | ESOS | 0 | | 150,000 | | 150,000 | £1.35 | £1.33 | 16/12/08 | 16/12/11 | 15/12/18 |
| | SELTIS | 12,100 | 12,100 | | | 0 | Nil | £9.87 | 14/12/11 | 14/12/14 | 13/12/18 |
| | SELTIS | 19,000 | | | | 19,000 | Nil | £7.02 | 07/01/11 | 07/01/14 | 06/01/18 |
| | SELTIS | 47,500 | | | | 47,500 | Nil | £2.03 | 17/12/09 | 17/12/12 | 16/12/16 |
| | SELTIS | 0 | | 75,000 | | 75,000 | Nil | £1.33 | 16/12/08 | 16/12/11 | 15/12/15 |
| Charles Holroyd | ESOS | 20,200 | 20,200 | | | 0 | £9.90 | £9.87 | 14/12/11 | 14/12/14 | 13/12/21 |
| | ESOS | 31,000 | | | | 31,000 | £7.05 | £7.02 | 07/01/11 | 07/01/14 | 06/01/21 |
| | ESOS | 85,000 | | | | 85,000 | £2.035 | £2.03 | 17/12/09 | 17/12/12 | 16/12/19 |
| | ESOS | 0 | | 150,000 | | 150,000 | £1.35 | £1.33 | 16/12/08 | 16/12/11 | 15/12/18 |
| | SELTIS | 10,100 | 10,100 | | | 0 | Nil | £9.87 | 14/12/11 | 14/12/14 | 13/12/18 |
| | SELTIS | 15,500 | | | | 15,500 | Nil | £7.02 | 07/01/11 | 07/01/14 | 06/01/18 |
| | SELTIS | 42,500 | | | | 42,500 | Nil | £2.03 | 17/12/09 | 17/12/12 | 16/12/16 |
| | SELTIS | 0 | | 75,000 | | 75,000 | Nil | £1.33 | 16/12/08 | 16/12/11 | 15/12/15 |

[1] During the year, Jonathan Flint, Kevin Boyd and Charles Holroyd exercised SELTIS and ESOS options on 16 December 2011 when the mid market closing price on the date of exercise was 951.5p. The gain yielded on the exercise of options during the year for Jonathan Flint, Kevin Boyd and Charles Holroyd was £4,138,556, £1,946,642 and £1,946,642 respectively.

[2] Since the year end, Jonathan Flint has married. His wife, an employee of the Company, holds ESOS options over 64,000 shares with exercise prices ranging from 203.5p to 990p.

The market price of the shares at 31 March 2012 was 1215p (2011: 700p) and the range during the year was 703p–1262p (2011: 256p–736p).

Performance conditions outstanding for awards are described below (all other awards in the table above have achieved the relevant performance conditions that had been set):

| Date of award | ESOS | SELTIS |
|---|---|---|
| December 2009 | EPS growth – 5% p.a. (33.3% vesting) to 10% p.a. (100% vesting)[1] | TSR v FTSE Small Cap Index (excluding certain sectors[2]) – median (33.3% vesting) to upper quartile (100% vesting) |
| January 2011 | EPS growth – 5% p.a. (33.3% vesting) to 10% p.a. (100% vesting)[1] | TSR v FTSE Small Cap Index (excluding certain sectors[2]) – median (33.3% vesting) to upper quartile (100% vesting |
| December 2011 | EPS growth – CPI + 5% p.a. (33.3% vesting) to 10% p.a. (100% vesting)[1] | TSR v FTSE 250 Index (excluding Financial companies[3]) – median (33.3% vesting) to upper quartile (100% vesting) |

1 For employees who are not Executive Directors, options become exercisable in full for achieving the threshold level.

2 Sectors excluded Food & Drug Retailers, General Retailers, Banks, Non-life Insurance, Life Insurance, Real Estate, General Financial, Equity Investment Instruments and Non-equity Investment Instruments Sectors.

3 Sectors excluded Banks, Equity Investment Instruments, Finance Services, Life Insurance, Nonlife Insurance, Real Estate Investment Trusts and Real Estate Investment Services.

## Achievement of performance conditions

The calculation of the TSR performance conditions were independently measured by Thomson Reuters for options granted prior to 2008 and are measured by New Bridge Street for options granted thereafter. EPS performance conditions are measured using the audited accounts of the Company. All performance conditions are then verified by the Committee. During the year, the 2008 ESOS and SELTIS grants vested as to 100% because of the Company's strong EPS and relative TSR performance.

## Pension plans

For UK employees and Executive Directors, the Company operates the Oxford Instruments Stakeholder Plan (a defined contribution scheme). It also operates the Oxford Instruments Defined Benefit Pension Scheme but this has been closed to new employees since April 2001 and closed to new accruals at the end of July 2010.

## Oxford Instruments defined benefit pension scheme

For UK-based Executive Directors and employees employed prior to April 2001, a contributory pension, depending on length of service, of up to two thirds of pensionable salary is provided on retirement through the Oxford Instruments defined benefit pension scheme (Defined Benefit Scheme). This was a contracted-out contributory pension scheme and it provides benefits based on earnings at or near retirement and is funded through a separate trust. Early retirement is possible on a reduced pension from age 55 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. In the case of death before retirement a spouse's pension of one half of the member's pension at death is payable and a refund of the member's contributions. This Scheme was closed to future accrual on 31 July 2010.

## Oxford Instruments Stakeholder Plan

Employees and Executive Directors are offered membership of the Oxford Instruments Stakeholder Plan ("Stakeholder Plan"). The Company contribution rate and employee contribution rate varies between grades and whether the individual had previously been in the Defined Benefit Scheme. The Company contribution ranges between 4% and 14% of base salary.

## Executive Director pension arrangements

Under the terms of their service contracts Executive Directors can ask the Company to contribute to a pension plan of their own choice. The Company contributes a maximum of 14% of base salary if matched by a contribution of 10% by the director or, if lower, a contribution by the director which brings the total pension contribution to £50,000. Only base salary is pensionable and contributions are not included in the calculation of bonus and share award entitlements. Where the Company's pension contribution exceeds £50,000 (the maximum pension contribution allowable per tax year) a balancing payment is paid by the Company to the director which will be taxed as income.

# Directors' Remuneration Report *continued*

During the year, the Company contributed £48,422 (2011: £45,167) into a personal defined contribution pension plan in respect of Jonathan Flint and £33,407 (2011: £31,450) into a personal defined contribution plan in respect of Kevin Boyd. In respect of Charles Holroyd, the company contributed £27,667 into the Stakeholder Plan (2011: £17,080 into the Stakeholder Plan together with £5,232 into the Defined Benefit Scheme). Charles Holroyd is a deferred member of the Defined Benefit Scheme and is no longer accruing benefits in the Scheme. In accordance with the rules of the Scheme his deferred benefits are subject to increases in line with statutory revaluation. The transfer value of his accrued benefits at 31 March 2012 was £506,000 (2011: £388,000).

## Death in service life cover

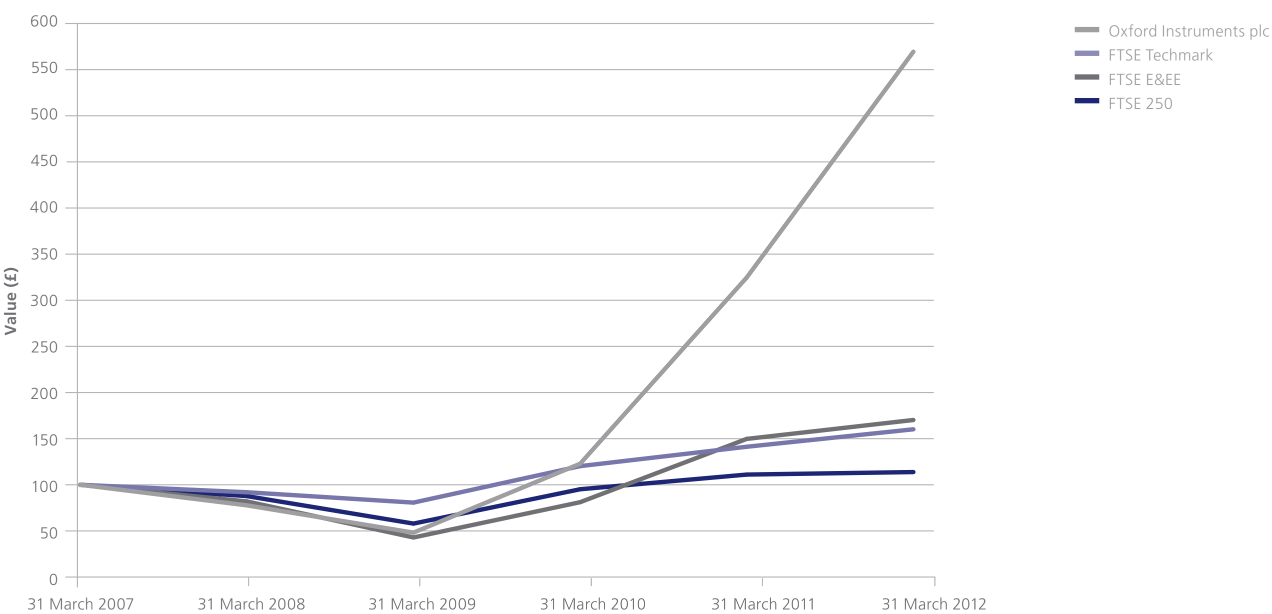
There is death in service life cover for all employees in the UK, including the Executive Directors, of three times basic salary. This is an insured scheme provided through the Oxford Instruments Life Assurance Scheme. All employees have the option to purchase an additional level of cover of up to a further three times basic salary.

## Performance graph (unaudited)

The graph below shows for the five years ended 31 March 2012 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 250, FTSE Techmark and FTSE Electronic and Electrical Equipment indices 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.

This report was adopted by the Committee at a meeting on 7 June 2012 and has been approved subsequently by the Board for submission to shareholders at the Annual General Meeting to be held on 11 September 2012.

**Total Shareholder Return**
Source: Thomson Reuters




This graph shows the value, by 31 March 2012, of £100 invested in Oxford Instruments plc on 31 March 2007 compared with the value of £100 invested in the FTSE Techmark All Share Index, the FTSE All Share Electronic and Electrical Equipment Index or the FTSE 250 Index over the same period. The other points plotted are the values at intervening financial year-ends.

**Nigel Keen**
Chairman of the Remuneration Committee

12 June 2012

# Directors' Responsibilities in relation to the Annual Report and Financial Statements



The Directors are responsible for preparing the Annual Report and the Group and Parent Company Financial Statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare Group and Parent Company Financial Statements for each financial year. Under that law they are required to prepare the Group Financial Statements in accordance with IFRSs as adopted by the EU and applicable law and have elected to prepare the Parent Company Financial Statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice).

Under company law the Directors must not approve the Financial Statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Parent Company and of their profit or loss for that period. In preparing each of the Group and Parent Company Financial Statements, the Directors are required to:

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

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Parent Company's transactions and disclose with reasonable accuracy at any time the financial position of the Parent Company and enable them to ensure that its Financial Statements comply with the Companies Act 2006. They 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 complies 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.

## RESPONSIBILITY STATEMENT OF THE DIRECTORS IN RESPECT OF THE ANNUAL FINANCIAL REPORT

We confirm that to the best of our knowledge:

- the Financial Statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole; and
- the Directors' Report includes a fair review of the development and performance of the business and the position of the company and Group taken as a whole, together with a description of the principal risks and uncertainties that they face.

Signed on behalf of the Board

**Kevin Boyd**
Group Finance Director

**Jonathan Flint**
Chief Executive

12 June 2012

# Report of the Independent Auditors to the members of Oxford Instruments plc

We have audited the Financial Statements of Oxford Instruments plc for the year ended 31 March 2012 set out on pages 56 to 110. The financial reporting framework that has been applied in the preparation of the Group Financial Statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU. The financial reporting framework that has been applied in the preparation of the Parent Company Financial Statements is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice).

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

## RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITOR

As explained more fully in the Directors' Responsibilities Statement set out on page 53, the directors are responsible for the preparation of the Financial Statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the Financial Statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

## SCOPE OF THE AUDIT OF THE FINANCIAL STATEMENTS

A description of the scope of an audit of Financial Statements is provided on the APB's website at www.frc.org.uk/apb/scope/private.cfm

## OPINION ON FINANCIAL STATEMENTS

In our opinion:

- the Financial Statements give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 March 2012 and of the Group's profit for the year then ended;
- the Group Financial Statements have been properly prepared in accordance with IFRSs as adopted by the EU;
- the Parent Company Financial Statements have been properly prepared in accordance with UK Generally Accepted Accounting Practice;
- the Financial Statements have been prepared in accordance with the requirements of the Companies Act 2006; and, as regards the Group Financial Statements, Article 4 of the IAS Regulation.

## OPINION ON OTHER MATTERS PRESCRIBED BY THE COMPANIES ACT 2006

In our opinion:

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006;
- the information given in the Directors' Report for the financial year for which the Financial Statements are prepared is consistent with the Financial Statements;
- the information given in the Corporate Governance Statement set out on pages 35 to 42 with respect to internal control and risk management systems in relation to financial reporting processes and about share capital structures is consistent with the Financial Statements.

## MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

We have nothing to report in respect of the following:

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- adequate accounting records have not been kept by the Parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Parent Company Financial Statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit; or
- a Corporate Governance Statement has not been prepared by the company.

Under the Listing Rules we are required to review:

- the directors' statement, set out on page 56, in relation to going concern;
- the part of the Corporate Governance Statement on pages 35 to 42 relating to the company's compliance with the nine provisions of the UK Corporate Governance Code specified for our review; and
- certain elements of the report to shareholders by the Board on directors' remuneration.

**S Haydn-Jones (Senior Statutory Auditor)**
**for and on behalf of KPMG Audit Plc, Statutory Auditor**
Chartered Accountants
One Snowhill
Snow Hill Queensway
Birmingham
B4 6GH

12 June 2012

# Accounting Policies

Oxford Instruments plc (the "Company") is a company incorporated and domiciled in the UK.

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 104 to 109.

The accounting policies set out below have, unless otherwise stated been applied consistently to all periods presented in these Group Financial Statements.

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Chief Executive's Statement on pages 10 to 11. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described in the Financial Review on pages 16 to 21.

The relatively diverse nature of the Group together with its current financial strength provides a solid foundation. The Directors have reviewed the Group's forecasts and flexed them to incorporate a number of potential scenarios relating to changes in trading performance and believe that the Group will be able to operate within its existing debt facility which expires in December 2014. This review also considered hedging arrangements in place. As a consequence, the Directors believe that the Group is well placed to manage its business risks successfully.

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.

The Group has made three restatements in the period. Firstly, the tax credit of £2.7 million arising in respect of share options in the prior year was, in error, reported in the Consolidated Statement of Comprehensive Income. This has been corrected and the credit has now been reported in the Consolidated Statement of Changes in Equity. Secondly, the Group has reclassified certain engineering costs incurred in relation to one-off special customer orders. Such costs are now treated as research and development costs rather than as costs of sales and is considered to be a treatment consistent with the Group's industry peers. The effect on the Consolidated Income Statement for the prior year was to reduce cost of sales by £2.4 million and increase research and development costs by the same amount. The effect on the Consolidated Statement of Income for the current year has been to reduce cost of sales by £3.1 million and increase research and development costs by £3.1 million. Thirdly, due to strong growth in its physical product sales, the Directors decided during the period that it was no longer appropriate to regard the Austin Scientific business as a service business. Consequently, it is now included within the Industrial Products segment and the comparatives have been restated accordingly. In line with the other businesses, its service revenues will continue to be reported in the Service segment. The effect of the restatement in the prior year was to increase the revenue and profit of the Industrial Products segment by £2.9 million and £0.2 million respectively with corresponding reductions in the Service segment. The amounts of the revenue and profit in the current year are £11.0 million and £2.4 million respectively. No adjustment has any effect on earnings per share or on any balance sheet previously presented. Accordingly, a revised opening balance sheet at 1 April 2010 is not disclosed.

The Financial Statements were authorised for issuance on 12 June 2012.

## (A) NEW ACCOUNTING STANDARDS

In the current year, the Group has adopted the following new standards, amendments and interpretations. These were mandatory for the year ended 31 March 2012.

- IAS 24 'Related parties disclosures (revised 2009)' – clarifies disclosure requirements for government related entities and amends the definition of a related party.
- IFRIC 19 'Extinguishing Financial Liabilities with Equity Instruments' – clarifies the accounting treatment for when an entity renegotiates the terms of its debt, such that the liability is extinguished, in whole or in part, by the entity issuing its own equity instruments to the lender (referred to as a 'debt for equity swap'). It addresses the accounting for such a transaction by the debtor only.
- Amendments to IFRIC 14 – Prepayments of a Minimum Funding Requirement: The amendment to IFRIC 14 removes unintended consequences of when an entity is subject to a minimum funding requirement (MFR) and makes an early payment of contributions to cover those requirements. The amendment results in prepayments of contributions in certain circumstances being recognised as an asset rather than an expense.

None of the above standards and interpretations have had any impact on profit, earnings per share or net assets in the year ended 31 March 2012. In addition to the above, amendments to a number of standards under the annual improvement project to IFRS, which are mandatory for the year ended 31 March 2012, have been adopted in the year. None of these amendments have had a material impact on the Group's Financial Statements.

### (B) BASIS OF PREPARATION

The Financial Statements are presented in pounds sterling, rounded to the nearest £0.1 million and are prepared on the historical cost basis except as described below under the heading 'Financial Instruments'.

The preparation of Financial Statements in conformity with adopted IFRSs 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. The key judgements made in respect of the appropriateness of the Group accounting policies relate to:

- **Fair value measurements on business combinations**
  The measurement of fair values on a business combination requires the recognition and measurement of the identifiable assets, liabilities and contingent liabilities. The key judgements involved are the identification and valuation of intangible assets which require the estimation of future cash flows and the selection of a suitable discount rate. (See Note 13)

- **Impairment of intangible assets (including goodwill) and tangible assets**
  Goodwill is held at cost and tested annually for impairment, and amortised intangibles and tangible assets are tested for impairment where there are indications of impairment. These impairment tests require the Group to make an estimate of the expected cash flows and to select suitable discount rates. These require an estimation of the value-in-use of these assets. (See Note 13)

- **Capitalised development costs**
  Capitalised development costs involve judgements around the future economic benefits that will flow from the associated development activity and in particular the Group's assessment of the technical and commercial feasibility of the product to be developed.

- **Measurement of defined benefit scheme liabilities**
  The Group recognises and measures costs relating to defined benefit pension schemes in accordance with IAS 19 'Employee Benefits'. In applying IAS 19 the costs are assessed in accordance with the advice of independent qualified actuaries. This requires the exercise of judgement in relation to the estimation of future changes in salaries and inflation, as well as mortality rates, expected returns on plan assets and the selection of suitable discount rates. Further detail is provided in note 21.

- **Provisions**
  Provisions are recognised in the period when it becomes probable that there will be a future outflow of funds resulting from past expectations or events which can be reasonably estimated. The timing of recognition requires the application of judgement to existing facts and circumstances which can be subject to change. Amounts provided represent the Group's best estimate of exposure based on currently available information.

- **Deferred tax assets**
  A deferred tax asset is recognised in the period if it is probable that future taxable profits will be available against which the asset can be utilised. This requires the exercise of judgement in relation to the estimation of future taxable profit.

  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. The key areas where estimates have been used and assumptions applied are in the calculation of provisions, the valuation of acquired intangible assets, the impairment testing of goodwill and the estimation of defined benefit pension plan liabilities.

# Accounting Policies *continued*

## (C) BASIS OF CONSOLIDATION

The Group accounts include the accounts of Oxford Instruments plc and its subsidiary companies adjusted to eliminate intra-group balances and any unrealised gains and losses or income and expenses arising from intra-group transactions.

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain economic benefits from its activities. In assessing control, potential voting rights that are currently exercisable or convertible are taken into account. The results of subsidiary companies are included from the date that control is obtained to the date of their disposal, where control is lost.

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on consolidation, are translated into sterling at exchange rates ruling at the end of the reporting period. Income statements and cash flows of foreign operations are translated into sterling at average quarterly exchange rates which approximate foreign exchange rates at the date of the transaction. Foreign exchange differences arising on retranslation are recognised directly in a separate translation reserve.

The purchase method is used to account for the acquisition of subsidiaries.

## (D) FOREIGN CURRENCY

An individual entity's 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 reporting date are translated at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in profit or loss. 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.

## (E) FINANCIAL INSTRUMENTS

Financial assets and liabilities are recognised in the Group's Consolidated Statement of Financial Position when the Group becomes a party to the contractual provisions of the instrument.

(i) The Group's investments in equity securities are classified as 'available for sale' financial assets. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses and foreign exchange gains and losses on available for sale monetary items, are recognised directly in equity. When an investment is derecognised, the cumulative gain or loss in equity is transferred to profit and loss.

(ii) Derivative financial instruments of the Group are used to hedge its exposure to interest rate, foreign currency and commodity pricing risks arising from operational, financing and investment activities. The Group does not hold or issue derivative financial instruments for trading purposes. All derivatives are initially recognised at fair value; attributable transaction costs are recognised in profit or loss as incurred. Derivatives comprising interest rate swaps, foreign exchange contracts and options and metal futures contracts are classified as 'fair value through profit and loss' under IAS 39, unless designated as hedges. Subsequent to initial recognition, derivatives are measured at fair value, and gains or losses on the settlement of such derivatives are recognised in operating expenses. Where such derivatives relate to the following year's exposure, any gains or losses resulting from the change in fair value are taken to the mark to market gains/losses line within financial income or expense.

(iii) Cash flow hedges
Changes in the fair value of the derivative hedging instruments designated as cash flow hedges are recognised in equity to the extent that the hedge is effective. To the extent that the hedge is ineffective, changes in fair value are recognised in the Consolidated Statement of Income. If the hedging instrument no longer meets the criteria for hedge accounting, expires or is sold, terminated or exercised, then hedge accounting is discontinued prospectively. The cumulative gain or loss previously recognised in equity remains there until the forecast transaction occurs. When the hedge item is a non-financial asset, the amount recognised in equity is transferred to the carrying amount of the asset when it is recognised. In other cases the amount recognised in equity is transferred to the Consolidated Statement of Income in the same period that the hedged item affects profit or loss.

(iv) The fair value of interest rate swaps is based on broker quotes. Those quotes are tested for reasonableness by discounting estimated future cash flows based on the terms and maturity of each contract and using market interest rates for a similar instrument at the measurement date.

(v) The fair value of forward exchange contracts is their quoted market price at the Consolidated Statement of Financial Position date, being the present value of the quoted forward price. The gain or loss on remeasurement to fair value of forward exchange contracts is recognised immediately in the Consolidated Statement of Income.

(vi) Interest bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest bearing borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in profit or loss over the period of the borrowing on an effective interest basis.

### (F) PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment is stated at historical cost less provisions for impairment (see accounting policy L) and depreciation which, with the exception of freehold land which is not depreciated, is provided on a straight-line basis over each asset's estimated economic life. Depreciation is provided based on historical cost less estimated residual value. The principle estimated economic lives used for this purpose are:

| | |
|---|---|
| Freehold buildings, long leasehold land and buildings | 50 years |
| Leasehold improvements (less than 50 years duration) | Period of lease |
| Furniture and fittings | 10 years |
| Machinery and other equipment | 5 to 10 years |
| Computer equipment | 4 years |
| Vehicles | 4 years |

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment and are recognised in the Income Statement.

### (G) INTANGIBLE ASSETS

#### (i) Goodwill

All business combinations are accounted for by applying the purchase method. Goodwill represents amounts arising on acquisition of subsidiaries. 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 assets, liabilities and contingent liabilities 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 company now expenses transaction costs associated with its acquisitions and movements in liabilities relating to contingent consideration within the income statement in conformity with the revised IFRS3.

Goodwill arising on acquisitions is stated at cost less any accumulated impairment losses and allocated to cash-generating units that are anticipated to benefit from the combination. It is not amortised but is tested annually for impairment (see accounting policy L), or more frequently when there is an indicator that the unit may be impaired.

#### (ii) Development costs

Research and development costs are charged to the Consolidated Statement of Income in the year in which they are incurred unless development expenditure is applied to a plan or design for the production of new or substantially improved products in which case they are capitalised. The criteria for capitalisation include demonstration of the technical feasibility of completing a new intangible asset that will be available for sale and that the asset will generate probable future economic benefits. Where expenditure meets the criteria, development costs are capitalised and amortised through the Consolidated Statement of Income over their useful economic lives.

#### (iii) Acquired intangible assets

An intangible asset acquired with a subsidiary undertaking is recognised as an intangible asset if it is separable from the acquired business or arises from contractual or legal rights, is expected to generate future economic benefits and its fair value can be reliably measured. The asset is amortised through the Consolidated Statement of Income over it useful economic life.

#### (iv) Amortisation

Amortisation of intangible assets is charged to the Consolidated Statement of Income on a systematic basis in proportion to the use of the assets over their estimated useful economic lives as follows:

| | |
|---|---|
| Capitalised development costs | 3 to 5 years |
| Technology related acquired intangibles | 5 to 10 years |
| Customer related acquired intangibles | 6 months to 8 years |

# Accounting Policies *continued*

### (H) TRADE AND OTHER RECEIVABLES
Trade and other receivables are initially recognised at fair value and subsequently stated at their amortised cost less appropriate allowances for amounts which are expected to be non-recoverable.

### (I) Inventories
Inventories are stated at the lower of cost and net realisable value. Cost includes materials, direct labour, an attributable proportion of production overheads based on normal operating capacity and all other expenditure incurred in acquiring the inventories and bringing them to their existing location and condition. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

Provision is made for obsolete, slow moving and defective stock where appropriate in light of recent usage, expected future requirements, new product introduction plans and likely realisable values.

### (J) CASH AND CASH EQUIVALENTS
Cash and cash equivalents are carried in the Statement of Financial Position at amortised cost.

Cash and cash equivalents comprise cash balances and call deposits and are carried at amortised cost. 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.

### (K) NON-CURRENT ASSETS HELD FOR SALE
A non-current asset is classified as held for sale if its carrying amount will be recovered principally through sale rather than through continuing use, it is available for immediate sale and sale is highly probable within one year.

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

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

### (L) IMPAIRMENT OF NON-CURRENT ASSETS
All non-current assets are tested for impairment whenever events or circumstances indicate that their carrying value may be impaired. Additionally, goodwill is subject to an annual impairment review.

For the purposes of impairment testing assets are grouped together into the smallest group of assets that generates cash flows from continuing use that are largely independent of the cash inflows from other groups of assets.

An impairment loss is recognised in the Consolidated Statement of Income (reorganisation costs and impairment) to the extent that an asset's carrying value, or a cash generating unit's carrying value, exceeds its recoverable amount, which represents the higher of its net realisable value and its value in use. Value in use is the present value of the future cash flows expected to be derived from the asset or from the cash generating unit to which it relates. The present value is calculated using a discount rate that reflects the current market assessment of the time value of money and the risks specific to the asset concerned.

Impairment losses recognised in previous periods for an asset other than goodwill are reversed if there has been a change in estimates used to determine the asset's recoverable amount, but only to the extent that the carrying amount of the asset does not exceed its carrying amount had the impairment loss not been recognised in previous periods. Impairment losses in respect of goodwill are not reversed.

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 and then to reduce the carrying amount of the other assets in the unit.

## (M) EMPLOYEE BENEFITS

The Group operates a number of defined benefit and defined contribution plans which require contributions to be made to independent trustee administered funds.

### (i) Defined contribution plans

Obligations for contributions to defined contribution pension plans are recognised as an expense in the Consolidated Statement of Income 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 current and past 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 calculation is performed by a qualified actuary using the projected unit credit method.

All actuarial gains and losses in calculating the Group's net obligation are recognised in the Consolidated Statement of Comprehensive Income in the year.

The charge to the Consolidated Statement of Income reflects the current service cost. The expected return on scheme assets and the interest cost on scheme liabilities are included within financial income or financial expenditure in the Consolidated Statement of Income respectively.

### (iii) Share-based payment transactions

The fair value of equity settled share option programmes is measured at grant date and charged to the Consolidated Statement of Income, with a corresponding increase in equity, on a straight line basis over the period during which the employees become unconditionally entitled to the options. The fair value of the options granted is measured using an option valuation model, 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 Consolidated Statement of Financial Position 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. A provision for warranty is recognised when the underlying products are sold. 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. 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.

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 liabilities.

## (O) TRADE AND OTHER PAYABLES

Trade and other payables are initially recognised at their fair value and subsequently stated at amortised cost.

## (P) INTEREST-BEARING BORROWINGS

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in the income statement over the period of the borrowings on an effective interest basis.

# Accounting Policies *continued*

### (Q) REVENUE

Revenue is recognised in the Consolidated Statement of Income when the significant risks and rewards of ownership have transferred to the buyer. Revenue excludes value added tax and similar sales based taxes, represents sales to external customers of products and services and is stated before commissions payable to agents. Revenue is recognised on shipment, except for installation and service 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.

### (R) INCOME TAX

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in profit or loss 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 reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised in respect of 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: the initial recognition of goodwill, the initial recognition of assets or liabilities that effect neither accounting nor taxable profit, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the 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 Statement of Financial Position 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) LEASE PAYMENTS

Payments made under operating leases are recognised in profit or loss 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.

### (T) SEGMENT REPORTING

An operating segment is a distinguishable component of the Group that engages in business activities from which it may earn revenues and incur expenses, including any revenues and expenses that relate to transactions with any of the Group’s other components. Operating segments are combined into aggregated operating segments to the extent that they have similar economic characteristics. Aggregated operating segment’s operating results are reviewed regularly by the Group’s Board of Directors to make decisions about resources to be allocated to the segment and to assess its performance, for which discrete financial information is available. Segment results that are reported to the Board include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

A reportable segment is an aggregated operating segment in respect of which revenue or profit exceeds 10% of the Group total. Discrete financial information is disclosed for each reportable segment.

### (U) DIVIDENDS

Interim and final dividends are recognised as a liability when they are no longer at the discretion of the company.

### (V) NEW STANDARDS AND INTERPRETATIONS NOT YET ADOPTED

The following amendment has been published by the IASB, endorsed by the EU, and is available for early adoption but has not yet been applied by the Group in these Financial Statements:

- Amendments to IFRS 7 Disclosures – Transfers of Financial Assets: will require additional disclosures about transfers of financial assets, e.g. securitisations and should enable users to understand the possible effects of any risks that may remain with the transferor. The amendment also requires additional disclosures if a disproportionate amount of transfer transactions are undertaken around the end of a reporting period.

The Group has considered the impact of this amendment in future periods on profit, earnings per share and net assets. It is not expected to have a material impact.

A number of other new standards, amendments to standards and interpretations have been issued by the IASB, although they are not yet endorsed by the EU, and are effective for annual periods beginning after 1 April 2012. They have not been applied in preparing these consolidated Financial Statements. None of these are expected to have a significant effect on profit, earnings per share or net assets of the consolidated Financial Statements of the Group, with the exception of:

- Amendment to IAS 19, which becomes mandatory for the Group's consolidated Financial Statements for the annual period beginning on 1 April 2013 and could reduce reported profits and earnings per share as the expected return on pension plan assets is required to be calculated by applying the discount rate used for scheme liabilities to scheme assets.

- IFRS 9 Financial Instruments, which becomes mandatory for the Group's consolidated Financial Statements for the annual period beginning on 1 April 2015 and could change the classification and measurement of financial assets.

The impact of these new standards, amendments to standards and interpretations has not yet been determined.

# Consolidated Statement of Income
## year ended 31 March 2012

| | Notes | Before adjusting items* £m | Adjusting items* £m | Total £m |
|---|---|---|---|---|
| **Revenue** | 2 | 337.3 | – | 337.3 |
| Cost of sales | | (188.3) | (1.7) | (190.0) |
| **Gross profit** | | 149.0 | (1.7) | 147.3 |
| Research and development | 4 | (25.8) | – | (25.8) |
| Selling and marketing | | (48.7) | – | (48.7) |
| Administration and shared services | | (32.1) | (12.7) | (44.8) |
| Other operating income | | – | 7.0 | 7.0 |
| Foreign exchange | | (0.3) | – | (0.3) |
| **Operating profit** | | 42.1 | (7.4) | 34.7 |
| Expected return on pension scheme assets | | 10.9 | – | 10.9 |
| Other financial income | | 0.2 | 1.5 | 1.7 |
| **Financial income** | | 11.1 | 1.5 | 12.6 |
| Interest charge on pension scheme liabilities | | (10.2) | – | (10.2) |
| Other financial expenditure | | (1.0) | – | (1.0) |
| **Financial expenditure** | | (11.2) | – | (11.2) |
| **Profit before income tax** | | 42.0 | (5.9) | 36.1 |
| Income tax (expense)/credit | 9 | (8.8) | (2.5) | (11.3) |
| **Profit for the period attributable to equity shareholders of the parent** | | 33.2 | (8.4) | 24.8 |

| | | pence | | pence |
|---|---|---|---|---|
| **Earnings per share** | | | | |
| Basic earnings per share | 10 | 61.6 | | 46.0 |
| Diluted earnings per share | 10 | 60.3 | | 45.0 |
| **Dividends per share** | | | | |
| Dividends paid | 11 | | | 9.0 |
| Dividends proposed | 11 | | | 10.0 |

* Adjusted numbers are stated to give a better understanding of the underlying business performance. Details of adjusting items can be found in Note 1 of these Financial Statements.

The attached notes form part of the Financial Statements.

# Consolidated Statement of Income
## year ended 31 March 2011

| | Notes | Before adjusting items* as restated** £m | Adjusting items* £m | Total as restated** £m |
|---|---|---|---|---|
| **Revenue** | 2 | 262.3 | – | 262.3 |
| Cost of sales | | (150.4) | – | (150.4) |
| **Gross profit** | | 111.9 | – | 111.9 |
| Research and development | 4 | (20.0) | – | (20.0) |
| Selling and marketing | | (39.9) | – | (39.9) |
| Administration and shared services | | (23.3) | (5.3) | (28.6) |
| Other operating income | | – | 4.7 | 4.7 |
| Foreign exchange | | (0.6) | – | (0.6) |
| **Operating profit** | | 28.1 | (0.6) | 27.5 |
| Expected return on pension scheme assets | | 9.9 | – | 9.9 |
| Other financial income | | – | 1.1 | 1.1 |
| **Financial income** | | 9.9 | 1.1 | 11.0 |
| Interest charge on pension scheme liabilities | | (10.6) | – | (10.6) |
| Other financial expenditure | | (1.2) | – | (1.2) |
| **Financial expenditure** | | (11.8) | – | (11.8) |
| **Profit before income tax** | | 26.2 | 0.5 | 26.7 |
| Income tax (expense)/credit | 9 | (5.7) | 11.2 | 5.5 |
| **Profit for the period attributable to equity shareholders of the parent** | | 20.5 | 11.7 | 32.2 |

| | Notes | pence | | pence |
|---|---|---|---|---|
| **Earnings per share** | | | | |
| Basic earnings per share | 10 | 41.5 | | 65.3 |
| Diluted earnings per share | 10 | 40.4 | | 63.6 |
| **Dividends per share** | | | | |
| Dividends paid | 11 | | | 8.4 |
| Dividends proposed | 11 | | | 9.0 |

* Adjusted numbers are stated to give a better understanding of the underlying business performance. Details of adjusting items can be found in Note 1 of these Financial Statements.

**See accounting policies for details of restatement of comparative information.

# Consolidated Statement of Comprehensive Income year ended 31 March 2012

| | Notes | 2012 £m | 2011 As restated* £m |
|---|---|---|---|
| **Profit for the year** | | 24.8 | 32.2 |
| **Other comprehensive (expense)/income** | | | |
| Foreign exchange translation differences | | (2.6) | (0.9) |
| Actuarial (loss)/gain in respect of post retirement benefits | 21 | (28.6) | 14.4 |
| (Loss)/gain on effective portion of changes in fair value of cash flow hedges, net of amounts recycled | | (0.4) | 0.3 |
| Tax on items recognised directly in other comprehensive income | 9 | 7.2 | (4.6) |
| **Total other comprehensive (expense)/income** | | (24.4) | 9.2 |
| **Total comprehensive income for the year attributable to equity shareholders of the parent** | | 0.4 | 41.4 |

* See accounting policies for details of restatement of comparative information.

# Consolidated Statement of Changes in Equity year ended 31 March 2012

| | Share capital £m | Share premium account £m | Other reserves £m | Foreign exchange translation reserve £m | Retained earnings £m | Total £m |
|---|---|---|---|---|---|---|
| **Balance at 1 April 2011** | 2.5 | 22.5 | 0.4 | 3.2 | 64.9 | 93.5 |
| **Total comprehensive income/(expense) attributable to equity shareholders of the parent** | | | | | | |
| – Profit | – | – | – | – | 24.8 | 24.8 |
| – Other comprehensive income | – | – | (0.3) | (2.6) | (21.5) | (24.4) |
| | – | – | (0.3) | (2.6) | 3.3 | 0.4 |
| **Transactions recorded directly in equity:** | | | | | | |
| – Credit in respect of employee service costs settled by award of share options | – | – | – | – | 1.0 | 1.0 |
| – Tax charge in respect of share options | – | – | – | – | (1.0) | (1.0) |
| – Proceeds from shares issued | 0.3 | 37.7 | – | – | – | 38.0 |
| – Dividends paid | – | – | – | – | (4.8) | (4.8) |
| **Total contributions by and distributions to equity shareholders** | 0.3 | 37.7 | – | – | (4.8) | 33.2 |
| **Balance at 31 March 2012** | 2.8 | 60.2 | 0.1 | 0.6 | 63.4 | 127.1 |
| | | | | | | |
| **Balance at 1 April 2010** | 2.5 | 21.6 | 0.2 | 4.1 | 23.8 | 52.2 |
| **Total comprehensive income/(expense) attributable to equity shareholders of the parent** | | | | | | |
| – Profit | – | – | – | – | 32.2 | 32.2 |
| – Other comprehensive income (as restated*) | – | – | 0.2 | (0.9) | 9.9 | 9.2 |
| | – | – | 0.2 | (0.9) | 42.1 | 41.4 |
| **Transactions recorded directly in equity:** | | | | | | |
| – Credit in respect of employee service costs settled by award of share options | – | – | – | – | 0.4 | 0.4 |
| – Tax credit recognised in respect of share options (as restated*) | – | – | – | – | 2.7 | 2.7 |
| – Proceeds from shares issued | – | 0.9 | – | – | – | 0.9 |
| – Dividends paid | – | – | – | – | (4.1) | (4.1) |
| **Total contributions by and distributions to equity shareholders** | – | 0.9 | – | – | (1.0) | (0.1) |
| **Balance at 31 March 2011** | 2.5 | 22.5 | 0.4 | 3.2 | 64.9 | 93.5 |

Other reserves comprise the capital redemption reserve which represents the nominal value of shares repurchased and then cancelled during the year ended 31 March 1999, and the hedging reserve in respect of the effective portion of changes in value of commodity contracts.

The foreign exchange 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 Group holds 173,794 (2011: 433,794) of its own shares in an employee benefit trust. The cost of these shares is included within retained earnings.

*See accounting policies for details of restatement of comparative information.

# Consolidated Statement of Financial Position as at 31 March 2012

| | Notes | 2012 £m | 2011 £m |
|---|---|---|---|
| **Assets** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | 12 | 28.2 | 23.6 |
| Intangible assets | 13 | 78.1 | 41.6 |
| Deferred tax assets | 14 | 19.3 | 17.4 |
| | | 125.6 | 82.6 |
| **Current assets** | | | |
| Inventories | 15 | 59.3 | 46.6 |
| Trade and other receivables | 16 | 61.0 | 52.5 |
| Current income tax recoverable | | 1.3 | 1.3 |
| Derivative financial instruments | 18 | 2.4 | 1.0 |
| Cash and cash equivalents | | 35.1 | 24.5 |
| | | 159.1 | 125.9 |
| **Total assets** | | 284.7 | 208.5 |
| **Equity** | | | |
| **Capital and reserves attributable to the Company's equity shareholders** | | | |
| Share capital | 19 | 2.8 | 2.5 |
| Share premium | | 60.2 | 22.5 |
| Other reserves | | 0.1 | 0.4 |
| Translation reserve | | 0.6 | 3.2 |
| Retained earnings | | 63.4 | 64.9 |
| | | 127.1 | 93.5 |
| **Liabilities** | | | |
| **Non-current liabilities** | | | |
| Bank loans | 20 | – | 10.5 |
| Other payables | 22 | 2.8 | 0.1 |
| Retirement benefit obligations | 21 | 35.2 | 11.7 |
| Deferred tax liabilities | 14 | 7.0 | 4.1 |
| | | 45.0 | 26.4 |
| **Current liabilities** | | | |
| Bank loans | 20 | – | 0.1 |
| Bank overdrafts | 20 | – | 0.8 |
| Trade and other payables | 22 | 96.4 | 76.5 |
| Current income tax payables | | 6.0 | 3.4 |
| Derivative financial instruments | 18 | 1.2 | 1.1 |
| Provisions | 23 | 9.0 | 6.7 |
| | | 112.6 | 88.6 |
| **Total liabilities** | | 157.6 | 115.0 |
| **Total liabilities and equity** | | 284.7 | 208.5 |

The Financial Statements were approved by the Board of Directors on 12 June 2012 and signed on its behalf by:

**Jonathan Flint**
Director

**Kevin Boyd**
Director

Company Number: 775598

# Consolidated Statement of Cash Flows
## year ended 31 March 2012

| | 2012 £m | 2011 £m |
|---|---|---|
| Profit for the year | 24.8 | 32.2 |
| Adjustments for: | | |
| Income tax expense/(credit) | 11.3 | (5.5) |
| Net financial (income)/expense | (1.4) | 0.8 |
| Other operating income | (7.0) | (4.7) |
| Impairment | – | 0.6 |
| Acquisition related fair value adjustments to inventory | 1.7 | – |
| Acquisition related costs | 1.5 | – |
| Amortisation of acquired intangibles | 11.2 | 4.7 |
| Depreciation of property, plant and equipment | 4.8 | 4.0 |
| Amortisation and impairment of capitalised development costs | 5.2 | 5.4 |
| **Adjusted earnings before interest, tax, depreciation and amortisation** | 52.1 | 37.5 |
| Loss on disposal of plant, property and equipment | 0.5 | – |
| Cost of equity settled employee share schemes | 1.0 | 0.4 |
| Acquisition related costs paid | (1.0) | – |
| Cash payments to the pension scheme more than the charge to operating profit | (4.5) | (5.6) |
| **Operating cash flows before movements in working capital** | 48.1 | 32.3 |
| Increase in inventories | (0.2) | (8.2) |
| (Increase)/Decrease in receivables | (1.7) | 7.4 |
| Increase in payables and provisions | 5.7 | 8.8 |
| Decrease in customer deposits | (1.4) | (1.1) |
| **Cash generated from operations** | 50.5 | 39.2 |
| Interest paid | (1.1) | (0.8) |
| Income taxes paid | (7.8) | (3.1) |
| **Net cash from operating activities** | 41.6 | 35.3 |
| **Cash flows from investing activities** | | |
| Proceeds from sale of property, plant and equipment | 0.1 | 0.1 |
| Proceeds from sale of product line and subsidiary | 7.3 | – |
| Acquisition of subsidiaries, net of cash acquired | (51.6) | (0.1) |
| Acquisition of property, plant and equipment | (5.6) | (5.8) |
| Capitalised development expenditure | (2.4) | (3.0) |
| **Net cash used in investing activities** | (52.2) | (8.8) |
| **Cash flows from financing activities** | | |
| Proceeds from issue of share capital | 38.0 | 0.9 |
| Repayment of borrowings | (13.1) | (19.1) |
| Increase in borrowings | 2.5 | 10.0 |
| Dividends paid | (4.8) | (4.1) |
| **Net cash from financing activities** | 22.6 | (12.3) |
| Net increase in cash and cash equivalents | 12.0 | 14.2 |
| Cash and cash equivalents at beginning of the year | 23.7 | 9.3 |
| Effect of exchange rate fluctuations on cash held | (0.6) | 0.2 |
| **Cash and cash equivalents at end of the year** | 35.1 | 23.7 |

# Consolidated Statement of Cash Flows
## year ended 31 March 2012 *continued*

| | 2012<br>£m | 2011<br>£m |
|---|---|---|
| **Reconciliation of changes in cash and cash equivalents to movement in net cash** | | |
| Increase in cash and cash equivalents | 12.0 | 14.2 |
| Effect of foreign exchange rate changes on cash and cash equivalents | (0.6) | 0.2 |
| | 11.4 | 14.4 |
| Cash outflow from decrease in debt | 13.1 | 19.1 |
| Cash inflow from increase in debt | (2.5) | (10.0) |
| Movement in net cash in the year | 22.0 | 23.5 |
| Net cash/(borrowing) at start of the year | 13.1 | (10.4) |
| **Net cash at the end of the year** | 35.1 | 13.1 |

## 1 NON-GAAP MEASURES

The Directors present the following non-GAAP measures as they consider that it gives a better indication of the underlying performance of the business.

### Reconciliation between profit before income tax and adjusted profit

| | Year ended 31 March 2012 £m | Year ended 31 March 2011 £m |
|---|---|---|
| Profit before income tax | 36.1 | 26.7 |
| Pension scheme curtailment gain | – | (4.1) |
| Shareholder earnout no longer required | – | (0.6) |
| Reversal of acquisition related fair value adjustments to inventory | 1.7 | – |
| Gain on disposal of product line | (7.0) | – |
| Acquisition related costs | 1.5 | – |
| Impairment | – | 0.6 |
| Amortisation of acquired intangibles | 11.2 | 4.7 |
| Mark to market gain in respect of derivative financial instruments | (1.5) | (1.1) |
| Adjusted profit before income tax | 42.0 | 26.2 |
| Share of taxation | (8.8) | (5.7) |
| Adjusted profit | 33.2 | 20.5 |

Further to the acquisitions of Omicron Nanotechnology and Omniprobe announced in June 2011 (see Note 5), the Board decided to modify the definition of adjusted profit before tax to exclude the reversal of acquisition related fair value adjustments to inventory to provide an adjusted profit measure that will include results from acquired businesses on a consistent basis over time to assist comparison of performance. Acquisition related costs comprise professional fees incurred in relation to mergers and acquisitions activity and any consideration which, under IFRS3 (revised), falls to be treated as a post acquisition employment expense.

On 20 October 2011 the Group disposed of a product line for a consideration of £8.1 million. £1.0 million of the consideration was deferred for one year. The product line was part of the Industrial Products segment. The profit on disposal was £7.0 million.

On 21 March 2012 the Group transferred its ownership of Technologies and Devices Inc (TDI) to Ostendo, a privately owned company based in California. The Group has received 650,000 shares of Ostendo common stock plus $0.7 million in cash of which $0.2 million will be paid six months after the closing date. The Group considers the fair value of the shares to be nil. The profit on disposal was nil. During the prior year, the Group recognised other operating income of £0.6 million in relation to a shareholder earnout provided at the time of the acquisition of TDI and which was no longer required.

Under IAS 39, all derivative financial instruments are recognised initially at fair value. Subsequent to initial recognition, they are also measured at fair value. In respect of instruments used to hedge foreign exchange risk and interest rate risk the Group does not take advantage of the hedge accounting rules provided for in IAS 39 since that standard requires certain stringent criteria to be met in order to hedge account, which, in the particular circumstances of the Group, are considered by the Board not to bring any significant economic benefit. Accordingly, the Group accounts for these derivative financial instruments at fair value through profit or loss. To the extent that instruments are hedges of future transactions, adjusted profit for the year is stated before changes in the valuation of these instruments so that the underlying performance of the Group can more clearly be seen.

In calculating the share of tax attributable to adjusted profit before tax in the prior year a one-off recognition of deferred tax assets relating to the Group’s UK businesses of £11.3 million was excluded. At that time the Group announced its intention to exclude the reversal of this deferred tax from the calculation of the share of tax attributable to adjusted profit before tax in the years in which it reverses. In the current period deferred tax of £4.6 million has reversed and consequently been excluded from the tax attributable to adjusted profit before tax.

# Notes to the Financial Statements year ended 31 March 2012 *continued*

## 1 NON-GAAP MEASURES *continued*

During the prior year, the Group's defined benefit pension schemes in the UK and US were closed to future accrual. This gave rise to a curtailment gain under IAS 19 as the majority of active members' accrued benefits are no longer linked to future salary growth.

During the prior year, the Group recognised an impairment charge of £0.6 million against costs capitalised in relation to the planned site move of the Plasma Technology business in the UK. This move will now not take place in the form originally planned.

## 2 SEGMENT INFORMATION

The Group has nine operating segments. These operating segments have been combined into three aggregated operating segments to the extent that they have similar economic characteristics, with relevance to products and services, type and class of customer, methods of sale and distribution and the regulatory environment in which they operate. Each of these three aggregated operating segments is a reportable segment.

The Group's internal management structure and financial reporting systems differentiate the three aggregated operating segments on the basis of the economic characteristics discussed below.

- The Nanotechnology Tools segment contains a group of businesses supplying similar products, characterised by a high degree of customisation and high unit prices. These are the Group's highest technology products serving research customers in both the public and private sectors.
- The Industrial Products segment contains a group of businesses supplying high technology products and components manufactured in medium volume for industrial customers.
- The Service segment contains the Group's service business as well as service revenues from other parts of the Group.

Reportable segment results include items directly attributable to a segment as well as those which can be allocated on a reasonable basis. Inter-segment pricing is determined on an arm's length basis. The operating results of each are regularly reviewed by the Chief Operating Decision Maker, which is deemed to be the Board of Directors. Discrete financial information is available for each segment and used by the Board of Directors for decisions on resource allocation and to assess performance. No asset information is presented below as this information is not allocated to operating segments in reporting to the Group's Board of Directors.

### a) Analysis by business
**Year to 31 March 2012**

| | Nanotechnology Tools £m | Industrial Products £m | Service £m | Total £m |
|---|---|---|---|---|
| External revenue | 153.3 | 128.0 | 56.0 | 337.3 |
| Inter-segment revenue | 0.6 | 1.1 | 0.3 | |
| Total segment revenue | 153.9 | 129.1 | 56.3 | |
| Segment operating profit | 17.3 | 13.8 | 11.0 | 42.1 |

**Year to 31 March 2011 (as restated*)**

| | Nanotechnology Tools £m | Industrial Products £m | Service £m | Total £m |
|---|---|---|---|---|
| External revenue | 121.4 | 98.5 | 42.4 | 262.3 |
| Inter-segment revenue | 0.4 | 2.0 | 0.1 | |
| Total segment revenue | 121.8 | 100.5 | 42.5 | |
| Segment operating profit | 14.6 | 6.1 | 7.4 | 28.1 |

* See accounting policies for details of restatement of comparative information.

**Reconciliation of reportable segment profit**

| | 2012 £m | 2011 £m |
|---|---|---|
| Profit for reportable segments | 42.1 | 28.1 |
| Other operating income | 7.0 | 4.7 |
| Reorganisation costs and impairment | – | (0.6) |
| Acquisition related costs | (1.5) | – |
| Reversal of acquisition related fair value adjustments to inventory | (1.7) | – |
| Amortisation of acquired intangibles | (11.2) | (4.7) |
| Financial income | 12.6 | 11.0 |
| Financial expenditure | (11.2) | (11.8) |
| Profit before income tax | 36.1 | 26.7 |

Depreciation, amortisation and impairment and capital expenditure arise in the following segments:

| | 2012 | | | 2011 | | |
|---|---|---|---|---|---|---|
| | Depreciation £m | Amortisation £m | Capital expenditure £m | As restated* Depreciation £m | Amortisation £m | Capital expenditure £m |
| Nanotechnology Tools | 2.9 | 2.8 | 2.8 | 1.9 | 2.6 | 3.7 |
| Industrial Products | 1.6 | 2.4 | 2.5 | 1.6 | 2.8 | 1.5 |
| Service | 0.1 | – | 0.1 | 0.1 | – | 0.1 |
| Unallocated Group items | 0.2 | 11.2 | 0.2 | 0.4 | 4.7 | 0.5 |
| Total | 4.8 | 16.4 | 5.6 | 4.0 | 10.1 | 5.8 |

Amortisation of research and development costs is included in arriving at segment trading profit. Amortisation of acquired intangibles is included below segment trading profit and excluded from the measure of operating profit reported to the Chief Operating Decision Maker and so has been included within unallocated Group items.

* See accounting policies for details of restatement of comparative information.

# Notes to the Financial Statements year ended 31 March 2012 *continued*

## 2 SEGMENT INFORMATION *continued*

### b) Geographical analysis

The Group's reportable segments are located across several geographical locations, and make sales to customers in countries across the world.

The analysis below shows revenue and non-current assets (excluding deferred tax) for individual countries or regions that represent more than 5% of revenue.

**Revenue from external customers by destination**

| | 2012 £m | 2011 £m |
|---|---|---|
| USA | 92.3 | 66.8 |
| Rest of Europe | 61.2 | 46.4 |
| Rest of Asia | 28.4 | 32.8 |
| UK | 30.2 | 24.4 |
| Japan | 36.6 | 28.6 |
| China | 48.9 | 38.1 |
| Germany | 23.9 | 13.1 |
| Rest of World | 15.8 | 12.1 |
| Total | 337.3 | 262.3 |

**Non-current assets (excluding deferred tax)**

| | 2012 £m | 2011 £m |
|---|---|---|
| UK | **28.0** | 29.8 |
| Germany | **40.3** | 16.9 |
| USA | **30.2** | 10.1 |
| Rest of Europe | **7.4** | 8.1 |
| Japan | **0.2** | 0.1 |
| China | **0.2** | 0.2 |
| **Total** | **106.3** | 65.2 |

## 3 AUDITOR'S REMUNERATION

| | 2012 £m | 2011 £m |
|---|---|---|
| Audit of these Financial Statements | 115 | 112 |
| Amounts received by auditors and their associates in respect of: | | |
| Audit of Financial Statements of subsidiaries pursuant to legislation | 275 | 198 |
| Other services relating to tax | 110 | 18 |
| Other services | 52 | 26 |
| Total fees paid to auditor and its associates | 552 | 354 |

## 4 RESEARCH AND DEVELOPMENT

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

| | 2012 | | | 2011 As restated* | | |
|---|---|---|---|---|---|---|
| | Nanotechnology Tools £m | Industrial Products £m | Total £m | Nanotechnology Tools £m | Industrial Products £m | Total £m |
| Research and development expense charged to the consolidated statement of income | 16.8 | 9.0 | 25.8 | 12.1 | 7.9 | 20.0 |
| Less: depreciation of R&D related fixed assets | (0.6) | (1.0) | (1.6) | (0.5) | (0.1) | (0.6) |
| Add: amounts capitalised as fixed assets | 0.6 | 0.7 | 1.3 | 2.2 | 0.1 | 2.3 |
| Less: amortisation of R&D costs previously capitalised as intangibles | (2.8) | (2.4) | (5.2) | (2.6) | (2.8) | (5.4) |
| Add: amounts capitalised as intangible assets | 1.7 | 0.7 | 2.4 | 1.9 | 1.1 | 3.0 |
| Total cash spent on research and development during the year | 15.7 | 7.0 | 22.7 | 13.1 | 6.2 | 19.3 |

*See accounting policies for details of restatement of comparative information.

## 5 ACQUISITIONS

### Omicron NanoTechnology GmbH

On 13 June 2011 the Group acquired 100% of the share capital of Omicron NanoTechnology GmbH for cash consideration totalling £29.7 million. Omicron NanoTechnology GmbH specialises in the manufacture of very high-end microscopes for nanotechnology research and is headquartered in Taunusstein, Germany. It has a manufacturing facility in East Grinstead, UK and sales offices in the US, France and Japan. The book and fair value of the assets and liabilities acquired is given in the table below. The business has been acquired for the purpose of integrating into the Nanotechnology Tools segment.

# Notes to the Financial Statements
year ended 31 March 2012 *continued*

## 5 ACQUISITIONS *continued*

| | Book value £m | Adjustments £m | Fair value £m |
|---|---|---|---|
| Intangible fixed assets | – | 27.8 | 27.8 |
| Tangible fixed assets | 6.2 | (1.7) | 4.5 |
| Inventories | 14.1 | (1.3) | 12.8 |
| Trade and other receivables | 5.1 | – | 5.1 |
| Trade and other payables | (4.7) | (0.2) | (4.9) |
| Customer deposits | (10.5) | (0.1) | (10.6) |
| Deferred tax liabilities | – | (6.8) | (6.8) |
| Cash | 1.4 | – | 1.4 |
| Net assets acquired | 11.6 | 17.7 | 29.3 |
| Goodwill | | | 0.4 |
| Total consideration | | | 29.7 |
| Cash acquired | | | (1.4) |
| Net cash outflow relating to the acquisition | | | 28.3 |

The goodwill arising is not tax deductible and is considered to represent the value of the acquired workforce.

**Omniprobe, Inc.**
On 13 June 2011 the Group acquired 100% of the share capital of Omniprobe, Inc. for cash consideration totalling £13.1 million of which £0.5 million is deferred for 2 years. Omniprobe, Inc. designs and manufactures nano-manipulators for use within scanning electron microscopes and is headquartered in Dallas, USA. The book and fair value of the assets and liabilities acquired is given in the table below. The business has been acquired for the purpose of integrating into the Nanotechnology Tools segment.

| | Book value £m | Adjustments £m | Fair value £m |
|---|---|---|---|
| Intangible fixed assets | 0.2 | 11.3 | 11.5 |
| Tangible fixed assets | 0.6 | (0.5) | 0.1 |
| Inventories | 0.5 | – | 0.5 |
| Trade and other receivables | 0.6 | – | 0.6 |
| Trade and other payables | (0.3) | (0.3) | (0.6) |
| Cash | 0.3 | – | 0.3 |
| Net assets acquired | 1.9 | 10.5 | 12.4 |
| Goodwill | | | 0.7 |
| Total consideration | | | 13.1 |
| Cash acquired | | | (0.3) |
| Contingent consideration | | | (0.5) |
| Net cash outflow relating to the acquisition | | | 12.3 |

The goodwill arising is tax deductible in full and is considered to represent the value of the acquired workforce and the value of patents which it has not been possible to separately identify.

### Platinum Medical Imaging LLC

On 3 November 2011 the Group acquired 100% of the share capital of Platinum Medical Imaging LLC for an initial cash consideration of £10.8 million.

Further contingent consideration is payable each year until the third anniversary of the acquisition dependent on post acquisition earnings. The amount of this consideration could be between zero and £19.4 million. The fair value of the amount likely to be paid is £2.6 million and is based on management forecasts of future profitability.

Platinum Medical Imaging LLC is an established US company providing high quality parts and services for MRI (Magnetic Resonance Imaging) and CT (Computed Tomography) medical imaging instruments. It operates from sites in Florida and California from which the business sells parts, carries out service and maintenance and performs system rebuilds.

The book and provisional fair value of the assets and liabilities acquired is given in the table below. Provisional values have been used to allow a new accounting team time to review and finalise the fair value adjustments. The business has been acquired for the purpose of integrating into the Service segment.

| | Book value £m | Provisional adjustments £m | Provisional fair value £m |
|---|---|---|---|
| Intangible fixed assets | – | 12.5 | 12.5 |
| Tangible fixed assets | 0.5 | (0.2) | 0.3 |
| Inventories | 0.9 | 0.8 | 1.7 |
| Trade and other receivables | 0.6 | (0.3) | 0.3 |
| Trade and other payables | (0.4) | (0.4) | (0.4) |
| Customer deposits | (0.4) | (0.3) | (0.7) |
| Deferred tax | – | (0.2) | (0.2) |
| Overdraft | (0.1) | – | (0.1) |
| Net assets acquired | 1.1 | 11.9 | 13.0 |
| Goodwill | | | 0.4 |
| Total consideration | | | 13.4 |
| Overdraft acquired | | | 0.1 |
| Contingent consideration | | | (2.6) |
| Net cash outflow relating to the acquisition | | | 10.9 |

The goodwill arising is tax deductible in full and is considered to represent the value of the acquired work force and expected synergies arising from the integration with the Group's existing service business.

The book value of receivables given in the tables above represents the gross contractual amounts receivable. The fair value adjustment to receivables represents the best estimate at the acquisition date of the cash flows not expected to be collected.

These acquisitions contributed revenue of £27.8 million, £4.5 million and £3.8 million respectively and operating losses of £4.6 million, £0.8 million and £0.7 million to the Group's result for the period. Had the acquisitions taken place on 1 April 2011 the equivalent Group numbers would have been revenue of £351.2 million and operating profit of £33.6 million.

# Notes to the Financial Statements
year ended 31 March 2012 *continued*

## 6 PERSONNEL COSTS

| | 2012 £m | 2011 £m |
|---|---|---|
| Wages and salaries | 72.5 | 56.6 |
| Social security costs | 9.7 | 6.0 |
| Charge in respect of defined benefit pension schemes | – | 0.8 |
| Contributions to defined contribution pension plans | 3.1 | 2.9 |
| Charge in respect of employee share options | 1.0 | 0.4 |
| | 86.3 | 66.7 |

Directors' emoluments are disclosed in the Directors' Remuneration Report on pages 43 to 52 of this Annual Report.

## 7 EMPLOYEES

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

| | 2012 Number | 2011 Number |
|---|---|---|
| Production | 954 | 740 |
| Sales and marketing | 377 | 332 |
| Research and development | 240 | 207 |
| Administration and shared services | 263 | 219 |
| Total average number of employees | 1,834 | 1,498 |

## 8 SHARE OPTION SCHEMES

The Group operates four share option schemes.

### Executive Share Option Scheme (ESOS)

Options awarded under the Executive Share Option Scheme are made annually to certain senior executives. The exercise prices are determined according to the mid-market closing share price on the day before the date of grant. Options have a life of 10 years and a vesting period of 3 years.

### All employee Save As You Earn Scheme

Options awarded under the Save As You Earn Scheme have a vesting period of either 3 or 5 years. The exercise prices are determined according to the mid-market closing share price on the day before the date of grant. Options must be exercised within 6 months of vesting. There are no performance conditions associated with this scheme. The final grant under this scheme was made in December 2006 and at the current time the Directors do not intend to grant any further options under this scheme.

### Senior Executive Long Term Incentive Scheme (SELTIS)

Options awarded under the Senior Executive Long Term Incentive Scheme are made annually to certain senior executives. The exercise prices are nil. Options have a life of 7 years and a vesting period of 3 years.

Both the Executive Share Option Scheme and Senior Executive Long Term Incentive Scheme are subject to performance conditions which can be found in the Directors' Remuneration Report on pages 43 to 52.

### All employee Share Incentive Plan (SIP)

All UK employees are eligible to participate in the Group's HM Revenue and Customs approved SIP. Participating employees make a cash contribution to the plan each month. The Group contributes a further amount equal to 20% of the employee's contribution. Independent trustees then purchase matching shares in the market on behalf of the employees. The matching shares vest on the completion by the participating employee of a further three years service and can be withdrawn from the plan tax-free after 5 years service.

Administrative expenses include a charge of £1 million (2011: £0.4 million) in respect of the cost of providing share options. The cost is calculated by estimating the fair value of the option at grant date and spreading that amount over the vesting period.

Fair values are determined using an internal calculation based on a modified Black-Scholes model. 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. Half of the ESOS options issued before 2009 and all SELTIS options use Total Shareholder Return (TSR) as a performance condition. As TSR is a market based performance condition, the accounting treatment differs from that for shares subject to internal performance conditions. This means that the TSR performance conditions have been incorporated into the calculation of the fair value as a discount in calculating the fair value.

For options granted in 2012 and 2011, the fair value per option granted and the assumptions used in the calculation are as follows:

| | Senior Executive Long Term Incentive Scheme | | Executive Share Option Scheme | |
|---|---|---|---|---|
| | 2012 | 2011 | 2012 | 2011 |
| Fair value at measurement date | £4.21 | £2.98 | £3.60 | £2.48 |
| Share price | £9.90 | £7.05 | £9.90 | £7.05 |
| Exercise price | £nil | £nil | £9.90 | £7.05 |
| Expected volatility | 43.1% | 47.0% | 40.2% | 37.6% |
| Expected option life (expressed as weighted average life used in the modelling) | 3 years | 3 years | 6 years | 6 years |
| Expected dividend yield | 0.9% | 1.2% | 0.9% | 1.2% |
| Risk free interest rate | 0.6% | 1.5% | 1.3% | 2.4% |

# Notes to the Financial Statements year ended 31 March 2012 *continued*

## 8 SHARE OPTION SCHEMES *continued*

The options existing at the year end were as follows:

| | 2012 | | | 2011 |
|---|---|---|---|---|
| | Number of shares | Exercise price | Period when exercisable | Number of shares |
| Options subsisting at the year end on unissued ordinary shares | | | | |
| **Executive Share Option Schemes** | | | | |
| July 2003 | 10,000 | £1.88 | 01/04/10 – 15/07/13 | 15,751 |
| July 2004 | 7,250 | £2.18 | 01/04/10 – 15/07/14 | 15,118 |
| July 2005 | 5,329 | £2.19 | 01/04/10 – 15/07/15 | 91,012 |
| July 2006 | 21,105 | £2.10 | 01/04/10 – 15/07/16 | 30,975 |
| September 2007 | 37,500 | £2.32 | 28/09/10 – 28/09/17 | 168,904 |
| December 2007 | – | £1.93 | 18/12/10 – 18/12/17 | 2,000 |
| December 2008 | 72,098 | £1.35 | 16/12/11 – 16/12/18 | 821,000 |
| December 2009 | 644,500 | £2.04 | 17/12/12 – 17/12/19 | 661,500 |
| January 2011 | 457,000 | £7.05 | 07/01/14 – 07/01/21 | 463,800 |
| December 2011 | 498,240 | £9.90 | 14/12/14 – 14/12/21 | – |
| **Save As You Earn** | | | | |
| December 2006 | 1,893 | £1.73 | 01/02/12 – 31/07/12 | 99,752 |
| Total options subsisting on unissued ordinary shares | 1,754,915 | | | 2,369,812 |
| Percentage of issued share capital | 3.1% | | | 4.7% |
| Options subsisting at the year end on existing ordinary shares held in trust | | | | |
| **Senior Executive Long Term Incentive Scheme** | | | | |
| December 2008 | – | Nil | 16/12/11 – 18/12/15 | 260,000 |
| December 2009 | 160,000 | Nil | 17/12/12 – 18/12/16 | 160,000 |
| January 2011 | 62,000 | Nil | 07/01/14 – 07/01/18 | 62,000 |
| December 2011 | 39,800 | Nil | 14/12/14 – 14/12/18 | – |
| Total options subsisting on existing ordinary shares held in trust | 261,800 | | | 482,000 |

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

| | Weighted average exercise price 2012 | Number of options 2012 | Weighted average exercise price 2011 | Number of options 2011 |
|---|---|---|---|---|
| Outstanding at the beginning of the period | £2.32 | 2,851,812 | £1.55 | 3,168,371 |
| Granted during the year | £9.17 | 538,040 | £6.22 | 525,800 |
| Forfeited during the year | £2.15 | (8,063) | £1.92 | (36,398) |
| Exercised during the year | £1.27 | (1,229,338) | £1.94 | (667,385) |
| Lapsed during the year | £1.69 | (135,736) | £1.45 | (138,576) |
| Outstanding at the year end | £4.83 | 2,016,715 | £2.32 | 2,851,812 |
| Exercisable at the year end | £1.79 | 155,175 | £2.23 | 323,760 |

The weighted average share price at the time of exercise of the options was £9.63 (2011: £5.45).

## 9 INCOME TAX EXPENSE

### Recognised in the Consolidated Statement of Income

| | 2012 £m | 2011 £m |
|---|---|---|
| **Current tax expense** | | |
| Current year | 10.4 | 6.1 |
| Adjustment in respect of prior years | – | (0.5) |
| | 10.4 | 5.6 |
| **Deferred tax expense** | | |
| Origination and reversal of temporary differences | 1.4 | 0.9 |
| Recognition of deferred tax not previously recognised | (0.2) | (11.9) |
| Adjustment in respect of prior years | (0.3) | (0.1) |
| | 0.9 | (11.1) |
| Total tax expense/(credit) | 11.3 | (5.5) |
| **Reconciliation of effective tax rate** | | |
| Profit before income tax | 36.1 | 26.7 |
| Income tax using the UK corporation tax rate of 26% (2011: 28%) | 9.4 | 7.5 |
| Effect of: | | |
| Tax rates other than the UK standard rate | 2.4 | 0.4 |
| Change in rate at which deferred tax recognised | 0.3 | (0.2) |
| Non-taxable income and expenses | 0.2 | 0.2 |
| Tax incentives not recognised in the Consolidated Statement of Income | (0.5) | (0.7) |
| Recognition of deferred tax not previously recognised | (0.2) | (11.9) |
| Effect of previous tax losses now utilised | – | (0.2) |
| Adjustment in respect of prior years | (0.3) | (0.6) |
| Total tax expense/(credit) | 11.3 | (5.5) |
| **Taxation expense/(credit) recognised in other comprehensive income** | | |
| Current tax – relating to employee benefits | – | (1.5) |
| Deferred tax – relating to employee benefits | (7.1) | 6.0 |
| Deferred tax – relating to cash flow hedges | (0.1) | 0.1 |
| | (7.2) | 4.6 |
| **Taxation expense/(credit) recognised directly in equity** | | |
| Deferred tax – relating to share options | 1.0 | (2.7) |

The 2012 Budget on 21 March 2012 announced that the UK corporation tax rate will reduce to 22% by 2014. A reduction in the rate from 26% to 25% (effective from 1 April 2012) was substantively enacted on 5 July 2011, and a further reduction to 24% (effective from 1 April 2012) was substantively enacted on 26 March 2012. This will reduce the Group's future current tax charge accordingly. The deferred tax asset at 31 March 2012 has been calculated based on the rate of 24% substantively enacted at the balance sheet date. It has not yet been possible to quantify the full anticipated effect of the announced further 2% rate reduction, although this will further reduce the Group's future current tax charge and reduce the Group's deferred tax asset accordingly.

# Notes to the Financial Statements
year ended 31 March 2012 *continued*

## 10 EARNINGS PER SHARE

The calculation of basic earnings per share is based on the profit for the period as shown in the Consolidated Statement of Income divided by the weighted average number of ordinary shares outstanding during the year, excluding shares held by the Employee Share Ownership Trust, as follows:

| | 2012 shares million | 2011 shares million |
|---|---|---|
| Weighted average number of shares outstanding | 54.2 | 49.7 |
| Less shares held by Employee Share Ownership Trust | (0.2) | (0.4) |
| **Weighted average number of shares used in calculation of earnings per share** | 54.0 | 49.3 |

The following table shows the effect of share options on the calculation of diluted earnings per share:

| | 2012 shares million | 2011 shares million |
|---|---|---|
| Weighted average number of ordinary shares per basic earnings per share calculations | 54.0 | 49.3 |
| Effect of shares under option | 1.1 | 1.4 |
| **Weighted average number of ordinary shares per diluted earnings per share calculations** | 55.1 | 50.7 |

## 11 DIVIDENDS PER SHARE

The following dividends per share were paid by the Group:

| | 2012 pence | 2011 pence |
|---|---|---|
| Previous year interim dividend | 2.52 | 2.40 |
| Previous year final dividend | 6.48 | 6.00 |
| | 9.00 | 8.40 |

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

| | 2012 pence | 2011 pence |
|---|---|---|
| Interim dividend | 2.772 | 2.52 |
| Final dividend | 7.228 | 6.48 |
| | 10.000 | 9.00 |

The interim dividend was not provided for at the year end and was paid on 10 April 2012. The payment of the interim dividend remains discretionary until it is paid. The final proposed dividend of 7.228 pence per share (2011: 6.48 pence) was not provided at the year end and will be paid on 25 October 2012 subject to authorisation by the shareholders at the forthcoming Annual General Meeting.

## 12 PROPERTY, PLANT AND EQUIPMENT

| | Land and buildings £m | Plant and equipment £m | Fixtures and fittings £m | Total £m |
|---|---|---|---|---|
| **Cost** | | | | |
| Balance at 1 April 2010 | 15.8 | 38.8 | 6.9 | 61.5 |
| Additions | 2.1 | 2.5 | 1.2 | 5.8 |
| Disposals | – | (0.6) | (0.5) | (1.1) |
| Effect of movements in foreign exchange rates | (0.2) | (0.5) | – | (0.7) |
| Balance at 31 March 2011 | 17.7 | 40.2 | 7.6 | 65.5 |
| **Balance at 1 April 2011** | 17.7 | 40.2 | 7.6 | 65.5 |
| **Additions – Business Combinations** | 3.6 | 0.2 | 1.1 | 4.9 |
| **Additions – other** | 0.1 | 5.4 | 0.1 | 5.6 |
| **Disposals** | (0.1) | (4.0) | – | (4.1) |
| **Effect of movements in foreign exchange rates** | (0.1) | (0.1) | – | (0.2) |
| **Balance at 31 March 2012** | 21.2 | 41.7 | 8.8 | 71.7 |
| **Depreciation and impairment losses** | | | | |
| Balance at 1 April 2010 | 4.0 | 29.0 | 5.7 | 38.7 |
| Depreciation charge for the year | 0.7 | 3.0 | 0.3 | 4.0 |
| Disposals | – | (0.1) | (0.4) | (0.5) |
| Effect of movements in foreign exchange rates | – | (0.3) | – | (0.3) |
| Balance at 31 March 2011 | 4.7 | 31.6 | 5.6 | 41.9 |
| **Balance at 1 April 2011** | 4.7 | 31.6 | 5.6 | 41.9 |
| **Depreciation charge for the year** | 0.7 | 3.6 | 0.5 | 4.8 |
| **Disposals** | – | (3.1) | – | (3.1) |
| **Effect of movements in foreign exchange rates** | – | (0.1) | – | (0.1) |
| **Balance at 31 March 2012** | 5.4 | 32.0 | 6.1 | 43.5 |
| **Carrying amounts** | | | | |
| At 1 April 2010 | 11.8 | 9.8 | 1.2 | 22.8 |
| At 31 March 2011 and 1 April 2011 | 13.0 | 8.6 | 2.0 | 23.6 |
| **At 31 March 2012** | 15.8 | 9.7 | 2.7 | 28.2 |

# Notes to the Financial Statements
## year ended 31 March 2012 *continued*

### 13 INTANGIBLE ASSETS

| | Goodwill £m | Customer related acquired intangibles £m | Technology related acquired intangibles £m | Development costs acquired intangibles £m | Development costs internally generated £m | Total £m |
|---|---|---|---|---|---|---|
| **Cost** | | | | | | |
| Balance at 1 April 2010 | 14.7 | 4.5 | 28.0 | – | 29.6 | 76.8 |
| Additions | – | – | – | – | 3.0 | 3.0 |
| Disposals | (0.1) | – | – | – | – | (0.1) |
| Effect of movements in foreign exchange rates | (0.1) | – | (0.4) | – | (0.3) | (0.8) |
| Balance at 31 March 2011 | 14.5 | 4.5 | 27.6 | – | 32.3 | 78.9 |
| **Balance at 1 April 2011** | 14.5 | 4.5 | 27.6 | – | 32.3 | 78.9 |
| **Additions – Business Combinations** | 1.5 | 23.2 | 23.8 | 4.8 | – | 53.3 |
| **Additions – other** | – | – | – | – | 2.4 | 2.4 |
| **Disposals** | – | – | (4.4) | – | (1.0) | (5.4) |
| **Effect of movements in foreign exchange rates** | (0.7) | (0.3) | (2.6) | – | (0.4) | (4.0) |
| **Balance at 31 March 2012** | 15.3 | 27.4 | 44.4 | 4.8 | 33.3 | 125.2 |
| **Amortisation and impairment losses** | | | | | | |
| Balance at 1 April 2010 | 1.3 | 3.8 | 10.3 | – | 12.1 | 27.5 |
| Amortisation and impairment charge for the year | – | 0.2 | 4.5 | – | 5.4 | 10.1 |
| Effect of movements in foreign exchange rates | – | – | (0.1) | – | (0.2) | (0.3) |
| Balance at 31 March 2011 | 1.3 | 4.0 | 14.7 | – | 17.3 | 37.3 |
| **Balance at 1 April 2011** | 1.3 | 4.0 | 14.7 | – | 17.3 | 37.3 |
| **Amortisation charge for the year** | – | 5.2 | 5.0 | 1.0 | 5.2 | 16.4 |
| **Disposals** | – | – | (4.4) | – | (0.6) | (5.0) |
| **Effect of movements in foreign exchange rates** | (0.1) | (0.3) | (0.9) | – | (0.3) | (1.6) |
| **Balance at 31 March 2012** | 1.2 | 8.9 | 14.4 | 1.0 | 21.6 | 47.1 |
| **Carrying amounts** | | | | | | |
| At 1 April 2010 | 13.4 | 0.7 | 17.7 | – | 17.5 | 49.3 |
| At 31 March 2011 and 1 April 2011 | 13.2 | 0.5 | 12.9 | – | 15.0 | 41.6 |
| **At 31 March 2012** | 14.1 | 18.5 | 30.0 | 3.8 | 11.7 | 78.1 |

Goodwill acquired in a business combination is allocated, at acquisition, to the cash generating units (CGUs) that are expected to benefit from that business combination. The carrying amount of goodwill was allocated to individual CGU's as follows:

| | 2012 £m | 2011 As restated* £m |
|---|---|---|
| **Nanotechnology Tools** | | |
| NanoScience | 2.3 | 2.4 |
| NanoAnalysis | 3.9 | 3.4 |
| Omicron | 0.3 | – |
| **Industrial Products** | | |
| Industrial Analysis | 3.2 | 3.5 |
| Magnetic Resonance | 2.3 | 2.3 |
| Austin Scientific | 1.7 | 1.6 |
| **Service** | | |
| OI Service | 0.4 | – |
| | 14.1 | 13.2 |

* See accounting policies for details of restatement of comparative information.

The Group tests goodwill annually for impairment, or more frequently if there are indications that goodwill might be impaired.

The impairment test operates by determining the recoverable amounts of relevant cash generating units, which are calculated as the higher of the fair value less costs to sell or their value in-use. The recoverable amount of the Group's goodwill is based on value in use calculations. For the purpose of impairment testing, Board-approved three year cash flow forecasts, prepared by the management of each CGU are used as a basis for the value in-use calculations together with 2.5% (2011: 5%) pa growth for each CGU for the subsequent twenty years. This growth rate is considered to be at or below long term market trends for the Group's businesses.

### Key assumptions

The key assumptions are those regarding discount rates, growth rates, expected selling volumes and prices and direct costs during the period.

The growth rates are based on industry growth factors. Changes in selling prices and direct costs are based on past practices and expectations of future changes in the market.

The pre-tax weighted average costs of capital used for Nanotechnology Tools, Industrial Products and Service in impairment testing are 11.1% (2011: 11.1%), 10.6% (2011: 10.6%) and 10.1% (2011: 10.1%) respectively in line with the risk associated with each of the business segments. Management have estimated these discount rates by reference to past experience and an industry average weighted cost of capital as adjusted for appropriate risk factors reflecting current economic circumstances and the risk profiles of each CGU.

### Sensitivity analysis

The Group's estimate of impairments are most sensitive to changes in the discount rate and forecast cash flows. Sensitivity analysis has been carried out by reference to both of these assumptions. This demonstrated that an impairment would only be required if there was an increase in the discount rates by 13% (2011: 15%) or more or a greater than 10% (2011: 40%) reduction in forecast cash flows on the CGU with the lowest level of headroom. Sensitivity testing on the other CGUs shows an even greater level of headroom.

Based on the above, the Group considers that its impairment calculations are not sensitive to any reasonable change to the key assumptions.

# Notes to the Financial Statements
## year ended 31 March 2012 *continued*

### 14 DEFERRED TAX

Movements in deferred tax assets and liabilities were as follows:

| | Property, plant and equipment £m | Inventory £m | Employee benefits £m | Intangible assets £m | Tax losses £m | Other £m | Total £m |
|---|---|---|---|---|---|---|---|
| Balance 31 March 2010 | 2.2 | 1.2 | 10.7 | (10.7) | 1.5 | 1.3 | 6.2 |
| Recognised in income | 0.9 | 0.5 | (0.6) | 3.2 | 7.1 | (0.1) | 11.0 |
| Recognised in other comprehensive income | – | – | (6.6) | – | – | (0.1) | (6.7) |
| Recognised directly in equity | – | – | 2.7 | – | – | – | 2.7 |
| Foreign exchange | – | – | – | 0.1 | – | – | 0.1 |
| Balance 31 March 2011 | 3.1 | 1.7 | 6.2 | (7.4) | 8.6 | 1.1 | 13.3 |
| Recognised in income | (2.0) | 0.7 | (2.1) | 3.8 | (2.9) | 1.6 | (0.9) |
| Recognised in other comprehensive income | – | – | 7.1 | – | – | 0.1 | 7.2 |
| Recognised directly in equity | – | – | (1.0) | – | – | – | (1.0) |
| Acquisitions | 0.5 | (0.4) | – | (6.9) | – | 0.1 | (6.7) |
| Foreign exchange | – | – | – | 0.4 | – | – | 0.4 |
| Balance 31 March 2012 | 1.6 | 2.0 | 10.2 | (10.1) | 5.7 | 2.9 | 12.3 |

Certain deferred tax assets and liabilities have been offset as follows:

| | Assets 2012 £m | Assets 2011 £m | Liabilities 2012 £m | Liabilities 2011 £m | Net 2012 £m | Net 2011 £m |
|---|---|---|---|---|---|---|
| Gross assets/(liabilities) | 23.6 | 20.8 | (11.3) | (7.5) | 12.3 | 13.3 |
| Offset | (4.3) | (3.4) | 4.3 | 3.4 | – | – |
| Net assets/(liabilities) | 19.3 | 17.4 | (7.0) | (4.1) | 12.3 | 13.3 |

Of the deferred tax assets £0.7 million relate to a loss making subsidiary in China. Management have reviewed a detailed forecast for that subsidiary which shows that it is highly probable that future profits will arise and on that basis it is considered appropriate to recognise the deferred tax asset.

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

| | 2012 £m | 2011 £m |
|---|---|---|
| Deductible temporary differences | 6.5 | 2.0 |
| Tax losses | 9.5 | 4.5 |
| | 16.0 | 6.5 |

The tax losses and the deductible temporary differences do not expire under current tax legislation. Deferred tax assets have not been recognised in respect of these items as it is not probable that future taxable profits will be available in the subsidiaries concerned against which the Group can utilise the brought forward tax losses.

No deferred tax liability has been recognised in respect of £50.2 million (2011: £48.7 million) of undistributed earnings of overseas subsidiaries since the majority of such distributions would not be taxable. In other cases the Group considers that it is able to control the timing of remittances so that any tax is not expected to arise in the foreseeable future.

On 21 March 2012 the Chancellor announced the reduction in the main rate of UK corporation tax to 24% with effect from 1 April 2012. This change became substantively enacted on 26 March 2012 and therefore the effect of the rate reduction creates a reduction in the deferred tax asset which has been included in the figures above.

The Chancellor also proposed changes to further reduce the main rate of corporation tax by one per cent per annum to 22% by 1 April 2014, but these changes have not yet been substantively enacted and therefore are not included in the figures above. The overall effect of the further reductions from 24% to 22%, if these applied to the deferred tax balance at 31 March 2012, would be to further reduce the deferred tax asset by approximately £1.0 million.

## 15 INVENTORIES

| | 2012 £m | 2011 £m |
|---|---|---|
| Raw materials and consumables | 15.8 | 14.3 |
| Work in progress | 25.8 | 19.7 |
| Finished goods | 17.7 | 12.6 |
| | 59.3 | 46.6 |

The amount of inventory recognised as an expense was £165.4 million (2011: £133.5 million) In the ordinary course of business, the Group makes impairment provisions for slow-moving, excess and obsolete inventory as appropriate. Inventory is stated after charging impairments of £0.6 million in the current period (2011: nil). There were no credits reversing previous impairments in either the current or prior period. Impairments are included within operating profit.

Inventory carried at fair value less costs to sell is £0.2 million (2011: nil) due to the acquisitions as described in Note 5.

# Notes to the Financial Statements
## year ended 31 March 2012 *continued*

### 16 TRADE AND OTHER RECEIVABLES

| | 2012 £m | 2011 £m |
|---|---|---|
| Trade receivables | 53.7 | 43.0 |
| Less provision for impairment of receivables | (1.8) | (0.7) |
| Net trade receivables | 51.9 | 42.3 |
| Prepayments and accrued income | 4.6 | 3.8 |
| Other receivables | 4.5 | 6.4 |
| | 61.0 | 52.5 |

Trade receivables are non-interest bearing. Standard credit terms provided to customers differ according to business and country, and are typically between 30 and 60 days.

The maximum exposure to credit risk for trade receivables by geographic region of the selling business was:

| | 2012 £m | 2011 £m |
|---|---|---|
| UK | 13.3 | 14.6 |
| Continental Europe | 9.7 | 5.6 |
| North America | 17.6 | 12.7 |
| Japan | 13.0 | 9.2 |
| Rest of World | 0.1 | 0.9 |
| | 53.7 | 43.0 |

The ageing of financial assets, comprising net trade receivables and other receivables at the reporting date was:

| | 2012 £m | 2011 £m |
|---|---|---|
| Current (not overdue) | 33.5 | 31.9 |
| Less than 31 days overdue | 9.5 | 7.0 |
| More than 30 days but less than 91 days overdue | 7.3 | 5.4 |
| More than 90 days overdue | 6.1 | 4.4 |
| | 56.4 | 48.7 |

In both periods presented the majority of the provision against trade receivables relates to balances more than 90 days overdue.

The movement in the allowance for impairment of trade receivables during the year was as follows:

| | 2012 £m | 2011 £m |
|---|---|---|
| Balance at start of year | 0.7 | 0.7 |
| Acquired on acquisition | 0.5 | – |
| Increase in allowance | 0.6 | – |
| Balance at end of year | 1.8 | 0.7 |

Valuation allowances are used to record provisions for credit losses. The valuation allowance is reduced and the asset impaired when the customer is in liquidation.

## 17 FINANCIAL RISK MANAGEMENT

The Group's multinational operations and debt financing expose it to a variety of financial risks. In the course of its business, the Group is exposed to foreign currency risk, interest rate risk, liquidity risk, commodity risk and credit risk . Financial risk management policies are set by the Board of Directors. These policies are implemented by a central treasury function that has formal procedures to manage foreign exchange risk, interest rate risk, and liquidity risk, including, where appropriate, the use of derivative financial instruments. Commodity risk is managed locally by the operating businesses. The Group has clearly defined authority and approval limits.

In accordance with its treasury policy, the Group does not hold or use derivative financial instruments for trading or speculative purposes. Such instruments are only used to manage the risks arising from operating or financial assets or liabilities or highly probable future transactions.

The Group uses derivative financial instruments to hedge its exposure to fluctuations in foreign exchange rates, interest rates and certain commodity prices.

The Group has adopted hedge accounting for a limited number of related commodity contracts as outlined below. However, in common with a number of other companies, the Group has decided that the additional costs of meeting the extensive documentation requirements of IAS 39 to apply hedge accounting to derivative financial instruments used for hedging exposure to foreign currency and interest rate volatility cannot be justified. Accordingly the Group does not use hedge accounting for such derivatives.

### Foreign currency risk

Foreign currency risk arises both where sale or purchase transactions are undertaken in currencies other than the respective functional currencies of Group companies (transactional exposures) and where the results of overseas companies are consolidated into the Group's reporting currency of sterling (translational exposures). The Group has operations around the world which record their results in a variety of different local functional currencies. In countries where the Group does not have operations, it invariably has some customers or suppliers that transact in a foreign currency. The Group is therefore exposed to the changes in foreign currency exchange rates between a number of different currencies but the Group's primary exposures relate to the US dollar, the Euro and the Japanese Yen. To reduce uncertainty the Group maintains a rolling hedge equivalent to 80% of the exposure expected to arise over the following 12 months. The hedge comprises a mixture of fixed forward contracts and option based products. The remaining 20% is sold on the spot market as it arises. The fair value of outstanding currency contracts recognised as a liability as at 31 March 2012 amount to £1.0 million (2011: £0.5 million) and those recognised as an asset amount to £2.4 million (2011: £0.7 million).

Movements in the fair value of derivative financial instruments are recognised in the Consolidated Statement of Income immediately. However, in order to facilitate a more meaningful comparison of the Group's performance year on year the element of these movements that relate to hedges in respect of future sales are treated as adjusting item in the calculation of adjusted earnings (see note 1).

The Group's translational exposures to foreign currency risks can relate both to the Consolidated Statement of Income and net assets of overseas subsidiaries. The Group's policy is not to hedge the translational exposure that arises on consolidation of the Consolidated Statements of Income of overseas subsidiaries.

### Interest rate risk

Interest rate risk comprises both the interest rate price risk that results from borrowing at fixed rates of interest and also the interest cash flow risk that results from borrowing at variable rates. At this time, the majority of the Group's borrowings attract floating rates of interest and therefore the Group's principal interest rate risk is a cash flow risk. In May 2008 the Group entered into an interest rate swap in order to manage its exposure to interest rate movements. Under the terms of the swap, the Group paid fixed interest of 4.1% on the notional amount of £14.8 million and received three months Sterling LIBOR. The swap was cancelled on 1 April 2011 for a settlement value of £0.6 million.

The fair value of interest rate swaps entered into as at 31 March 2012 is estimated as a liability of £0.1 million (2011: £0.6 million). These amounts are based on market estimates of equivalent instruments at the Consolidated Statement of Financial Position date. These interest rate swaps are not designated as cash flow hedges, for hedge accounting purposes, and consequently they are accounted for at fair value through profit or loss. No charge/credit was made to the Consolidated Statement of Income in the period (2011: credit of £0.3 million).

# Notes to the Financial Statements year ended 31 March 2012 *continued*

## 17 FINANCIAL RISK MANAGEMENT *continued*

### Liquidity risk

Liquidity risk represents the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing this risk is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation. The Group manages this risk by maintaining adequate committed lines of funding from high quality lenders. The facilities committed to the Group as at 31 March 2012 are set out in note 20.

### Credit risk

Credit risk arises because a counterparty may fail to perform its obligations. The Group is exposed to credit risk on financial assets such as cash balances, derivative financial instruments, trade and other receivables. The Group's credit risk is primarily attributable to its trade receivables. The amounts recognised in the Consolidated Statement of Financial Position are net of appropriate allowances for doubtful receivables, estimated by the Group's management based on prior experience and their assessment of the current economic environment. Trade receivables are subject to credit limits, and control and approval procedures in the operating companies.

Due to its large geographic base and number of customers, the Group is not exposed to material concentrations of credit risk on its trade receivables. Credit risk associated with cash balances and derivative financial instruments is managed by transacting with financial institutions with high quality credit ratings. Accordingly the Group's associated credit risk is limited. The Group has no significant concentration of credit risk. The Group's maximum exposure to credit risk is represented by the carrying amount of each financial asset, including derivative financial instruments, in the Group Consolidated Statement of Financial Position.

#### Exposure to credit risk

The carrying amount of financial assets represent the maximum credit exposure. The maximum exposure to credit risk at 31 March 2012 was £93.9 million (2011: £73.9 million).

| | 2012 £m | 2011 £m |
|---|---|---|
| Trade receivables | 51.9 | 42.3 |
| Other receivables | 4.5 | 6.4 |
| Cash and cash equivalents | 35.1 | 24.5 |
| Forward exchange contracts | 2.4 | 0.7 |
| | 93.9 | 73.9 |

The maximum exposure to credit risk for trade receivables is discussed in note 16.

Other receivables include £1.0 million (2011: £0.9 million) in respect of VAT and similar taxes which are not past due.

### Commodity risk

The Group is exposed to changes in commodity prices, particularly in respect of copper used as a major component in the Group's US operations. It manages this exposure using derivative commodity hedging instruments.

At 31 March 2012, the Group had outstanding commodity hedge contracts with a fair value liability of £0.1 million (2011: £0.3 million asset) that were designated and effective as cash flow hedges of committed and highly probable forecast transactions. Fair value movements of these contracts have been deferred in equity until the hedged transaction takes place. These contracts all mature within one year of the Consolidated Statement of Financial Position date.

A £0.1 million loss net of tax (2011: £0.2 million gain) has been deferred in equity as at 31 March 2012 in respect of these contracts. A gain of £0.3 million (2011: £0.3 million gain) has been recycled to current assets (inventory) in respect of contracts designated as cash flow hedges that have matured during the year to 31 March 2012.

**Capital management**

The Board considers Capital to comprise share capital, reserves and the net cash or net debt position of the company. The company was in a net cash position at the year end.

The Board's long term objective is to have an efficient capital structure by maintaining a balance between the higher returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position. This is monitored by reference to the ratio of net debt to Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA) and the board has set itself internal limits, which are well inside any covenants the Group has with lenders. The Group maintains the right to purchase its own shares in the market; the timing of these purchases would depend on market prices. Buy and sell decisions are made on a specific transaction basis by the Board.

The Board carefully considers dividend payments and the company moved from a fixed dividend policy to a progressive one in the year ended March 2011. In doing this the Board will look to increase dividends as adjusted earnings per share increase although there will not be a direct correlation. The Board do not have a policy to pay a fixed dividend yield or to maintain a fixed rate of dividend cover, but assess both of these metrics together with dividends paid by peers when assessing what dividend to recommend.

The Group outlined its new medium term targets on the 14 June 2011 in its 14 Cubed Plan. Part of this plan calls for "bolt-on" acquisitions. In line with the objective of maintaining a balance between borrowings and equity, the Group decided to seek to repay the debt drawn down to finance the first two acquisitions of the 14 Cubed Plan through an equity issue, improving the net debt to EBITDA ratio, thereby allowing it to finance any future bolt-on acquisitions from its balance sheet and existing committed facility without recourse to further equity issues.

The Board encourages employees to hold shares in the Company. As well as various share option plans (full details of which are given in note 8), from April 2008 all UK employees have been offered the opportunity to take part in a Share Incentive Plan (SIP). Under this plan, employees are able to invest up to £1,500 each tax year in shares in the Company. The Company awards one additional free share (a matching share) for every five shares bought by each employee.

There were no changes to the Group's approach to capital management during the year. Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

# Notes to the Financial Statements
## year ended 31 March 2012 *continued*

### 18 FINANCIAL INSTRUMENTS

**Fair values of financial assets and liabilities**

The fair values of financial assets and liabilities together with the carrying amounts shown in the Consolidated Statement of Financial Position are as follows:

| | Fair value hierarchy | Carrying amount 2012 £m | Fair value 2012 £m | Carrying amount 2011 £m | Fair value 2011 £m |
|---|---|---|---|---|---|
| **Assets carried at amortised cost** | | | | | |
| Trade receivables | 2 | 51.9 | 51.9 | 42.3 | 42.3 |
| Other receivables | 2 | 4.5 | 4.5 | 6.4 | 6.4 |
| Cash and cash equivalents | 2 | 35.1 | 35.1 | 24.5 | 24.5 |
| **Assets carried at fair value** | | | | | |
| Derivative financial instruments: | | | | | |
| Foreign currency contracts | 2 | 2.4 | 2.4 | 0.7 | 0.7 |
| Copper hedging contracts | 2 | – | – | 0.3 | 0.3 |
| | | 2.4 | 2.4 | 1.0 | 1.0 |
| **Liabilities carried at fair value** | | | | | |
| Derivative financial instruments: | | | | | |
| Foreign currency contracts | 2 | (1.0) | (1.0) | (0.5) | (0.5) |
| Interest rate swaps | 2 | (0.1) | (0.1) | (0.6) | (0.6) |
| Copper hedging contracts | 2 | (0.1) | (0.1) | – | – |
| | | (1.2) | (1.2) | (1.1) | (1.1) |
| **Liabilities carried at amortised cost** | | | | | |
| Unsecured bank borrowing | 2 | – | – | (10.0) | (9.1) |
| Secured bank borrowing (note 20) | 2 | – | – | (0.6) | (0.6) |
| Trade and other payables | 2 | (99.2) | (99.2) | (76.6) | (76.6) |
| Bank overdraft | 2 | – | – | (0.8) | (0.8) |

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

**Derivative financial instruments**

Derivative financial instruments are marked to market using listed market prices.

**Fixed and floating rate borrowings**

The fair value of fixed and floating rate borrowings is estimated by discounting the future contracted principal and interest cash flows using the market rate of interest at the reporting date.

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

### Fair value hierarchy
The table above gives details of the valuation method used in arriving at the fair value of financial instruments. The different levels have been identified as follows:

Level 1: quoted prices (unadjusted) in active markets for identical assets and liabilities

Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (ie. as prices) or indirectly (ie. derived from prices)

Level 3: inputs for the asset or liability that are not based on observable market data

There have been no transfers between levels during the year.

### Maturity of financial liabilities
**31 March 2012**

| | Carrying amount £m | Contractual cash flows £m | Due within one year £m | Due 1–5 years £m |
|---|---|---|---|---|
| Trade and other payables | 99.2 | 99.2 | 96.4 | 2.8 |
| Foreign exchange contracts | 1.0 | 0.6 | 0.6 | – |
| Interest rate swaps | 0.1 | 0.1 | 0.1 | – |
| | 100.3 | 99.9 | 97.1 | 2.8 |

**31 March 2011**

| | Carrying amount £m | Contractual cash flows £m | Due within one year £m | Due 1–5 years £m | Due more than 5 years £m |
|---|---|---|---|---|---|
| Bank overdrafts | 0.8 | 0.8 | 0.8 | – | – |
| Bank borrowing | 10.6 | 11.9 | 0.4 | 11.1 | 0.4 |
| Trade and other payables | 76.6 | 76.6 | 76.5 | 0.1 | – |
| Foreign exchange contracts | 0.5 | 1.0 | 0.7 | 0.3 | – |
| Interest rate swaps | 0.6 | 0.6 | 0.6 | – | – |
| | 89.1 | 90.9 | 79.0 | 11.5 | 0.4 |

# Notes to the Financial Statements year ended 31 March 2012 *continued*

## 18 FINANCIAL INSTRUMENTS *continued*

At the reporting date the interest rate profile of the Group's interest – bearing financial instruments was:

| | Carrying amount 2012 £m | Carrying amount 2011 £m |
|---|---|---|
| **Variable rate instruments** | | |
| Financial assets | 35.1 | 24.5 |
| Financial liabilities | – | (10.8) |
| **Fixed rate instruments** | | |
| Financial liabilities | (0.1) | (0.6) |

### Bank overdraft

In the prior year bank overdrafts carried interest rates of 2.65% in the UK, 3% in Europe and LIBOR+ 3.5% in Japan.

### Sensitivity analysis

The Group has estimated the impact of the change to the fair value of its financial instruments and the translation of currency profits and assets on the Consolidated Statement of Income and on equity for the following:

- one percentage point increase in interest rates
- ten percentage point weakening in the value of sterling against all currencies
- ten percentage point strengthening in the value of sterling against all currencies
- five percentage point increase in the cost of copper
- five percentage point decrease in the cost of copper

The outputs from the sensitivity analysis are estimates of the impact of market risk assuming that the specified changes occur net of any hedging in place at the year end. Actual results in the future may differ materially from these estimates due to commercial actions taken to mitigate any potential losses from such rate movements, to the interaction of more than one sensitivity occurring and to further developments in global financial markets. As such this table should not be considered as a projection of likely future gains and losses.

| | 1% increase in interest rates £m | 10% weakening in sterling[1] £m | 10% strengthening in sterling[1] £m | 5% increase in copper prices £m | 5% decrease in copper prices £m |
|---|---|---|---|---|---|
| **At 31 March 2012** | | | | | |
| **Impact on Consolidated Statement of Income** | – | 3.4 | (3.4) | – | – |
| **Impact on equity** | – | 3.4 | (3.4) | 0.1 | (0.1) |
| At 31 March 2011 | | | | | |
| Impact on Consolidated Statement of Income | 0.3 | 2.4 | (2.4) | – | – |
| Impact on equity | 0.3 | 2.4 | (2.4) | 0.1 | (0.1) |

[1] Of the effect on the Consolidated Statement of Income, £4.2 million (2011: £4.2 million) would have been recognised on the 'Mark to Market' line (see Note 1).

## 19 CALLED UP SHARE CAPITAL

Issued and fully paid ordinary shares:

| | 2012 Number of shares | 2011 Number of shares |
|---|---|---|
| At the beginning of the year | 50,174,913 | 49,567,328 |
| Issued for cash | 5,991,810 | 607,585 |
| At the end of the year | 56,166,723 | 50,174,913 |

| | 2012 Number of Shares | 2012 £m | 2011 Number of Shares | 2011 £m |
|---|---|---|---|---|
| **Authorised** | | | | |
| Ordinary shares of 5p each | 58,000,000 | 2.9 | 58,000,000 | 2.9 |
| **Allotted, called up and fully paid** | | | | |
| Ordinary shares of 5p each | 56,166,723 | 2.8 | 50,174,913 | 2.5 |

| | 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 | 97,796 | £4.890 | £1.73 |
| Exercise of Executive Share Options | 195,264 | £9,763 | £1.35-£7.05 |
| Exercise of Executive Share Options – share appreciation rights | 676,278 | £33,814 | £0.05 |
| Equity raising | 5,013,121 | £250,656 | £7.75 |
| Other | 9,351 | £468 | – |

The holders of the ordinary shares are entitled to receive dividends as declared, a proportionate amount of capital on a winding up of the Company and to one vote per share at meetings of the Company.

## 20 BORROWINGS

At 31 March 2012 the Group had borrowings with a book value of £nil (2011: £10.6 million).

In December 2010, the Group entered into a committed revolving credit facility with a club of three banks. The facility, currently undrawn, expires in December 2014, is for £50 million and is extendable to £70 million by mutual consent.

The facility carries a floating interest rate of LIBOR plus a margin of between 1.625% and 2.75% depending on the level of net debt in relation to earnings (current margin is 1.625%). All necessary conditions precedent and covenants were met at 31 March 2012.

As at 31 March 2011 borrowings with a book and fair value of £0.6 million related to a mortgage made available to Oxford Instruments Analytical GmbH (formerly Worldwide Analytical Systems AG) in respect of a property in Uedem. This mortgage was re-paid during the year.

# Notes to the Financial Statements
year ended 31 March 2012 *continued*

## 21 RETIREMENT BENEFIT OBLIGATIONS

The Group operates defined benefit plans in the UK and US; both offer pensions in retirement and death in service benefit to members. Pension benefits are related to members' final salary at retirement and their length of service. Both schemes have been closed to new members since 2001.

During the prior year, the Group's defined benefit plans in the UK and the US were closed to future accrual.

The Group has opted to recognise all actuarial gains and losses immediately via the Consolidated Statement of Comprehensive Income.

**The amounts recognised in the Consolidated Statement of Financial Position are:**

| | UK 2012 £m | USA 2012 £m | Total 2012 £m | UK 2011 £m | USA 2011 £m | Total 2011 £m |
|---|---|---|---|---|---|---|
| Present value of funded obligations | 206.3 | 9.1 | 215.4 | 177.1 | 7.7 | 184.8 |
| Fair value of plan assets | (173.6) | (6.6) | (180.2) | (166.5) | (6.6) | (173.1) |
| Recognised liability for defined benefit obligations | 32.7 | 2.5 | 35.2 | 10.6 | 1.1 | 11.7 |

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

| | UK 2012 £m | USA 2012 £m | Total 2012 £m | UK 2011 £m | USA 2011 £m | Total 2011 £m |
|---|---|---|---|---|---|---|
| Benefit obligation at the beginning of the year | 177.1 | 7.7 | 184.8 | 183.7 | 9.0 | 192.7 |
| Interest on obligation | 9.8 | 0.4 | 10.2 | 10.2 | 0.4 | 10.6 |
| Current service cost | – | – | – | 0.6 | 0.2 | 0.8 |
| Benefits paid | (3.4) | (0.4) | (3.8) | (3.6) | (0.3) | (3.9) |
| Actuarial loss/(gain) on obligation | 22.8 | 1.4 | 24.2 | (11.3) | 0.4 | (10.9) |
| Curtailment gains | – | – | – | (2.5) | (1.6) | (4.1) |
| Exchange rate adjustment | – | – | – | – | (0.4) | (0.4) |
| Benefit obligation at the end of the year | 206.3 | 9.1 | 215.4 | 177.1 | 7.7 | 184.8 |

The benefit obligation under the UK pension scheme was reduced by approximately £10.6 million during the prior year following the Government's decision to move from RPI to CPI as the measure of inflation used in pension calculations. The Group expects that as a result of these changes, and subject to the existing caps, CPI will be used to calculate the increase of pensions in deferment. Pensions in payment will, subject to the cap, continue to be indexed in line with RPI.

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

| | UK 2012 £m | USA 2012 £m | Total 2012 £m | UK 2011 £m | USA 2011 £m | Total 2011 £m |
|---|---|---|---|---|---|---|
| Fair value of plan assets at the beginning of the year | 166.5 | 6.6 | 173.1 | 151.7 | 5.9 | 157.6 |
| Expected return on plan assets | 10.4 | 0.5 | 10.9 | 9.5 | 0.4 | 9.9 |
| Contributions by employers | 4.5 | – | 4.5 | 5.9 | 0.5 | 6.4 |
| Benefits paid | (3.4) | (0.4) | (3.8) | (3.6) | (0.3) | (3.9) |
| Actuarial (loss)/gain on assets | (4.4) | – | (4.4) | 3.0 | 0.5 | 3.5 |
| Exchange rate adjustment | – | (0.1) | (0.1) | – | (0.4) | (0.4) |
| Fair value of plan assets at the end of the year | 173.6 | 6.6 | 180.2 | 166.5 | 6.6 | 173.1 |

### Expense recognised in the Consolidated Statement of Income

| | 2012 £m | 2011 £m |
|---|---|---|
| Current service cost | – | 0.8 |
| Interest on obligation | 10.2 | 10.6 |
| Expected return on plan assets | (10.9) | (9.9) |
| Total – defined benefit | (0.7) | 1.5 |
| Contributions to defined contribution schemes | 3.1 | 2.9 |
| | 2.4 | 4.4 |

The actual gain on plan assets was £6.5 million (2011: £13.4 million gain).

The Group expects to contribute approximately £4.8 million to defined benefit plans in the next financial year.

### The pension costs are recorded in the following lines of the Consolidated Statement of Income:

| | 2012 £m | 2011 £m |
|---|---|---|
| Cost of sales | 0.8 | 1.5 |
| Selling and marketing costs | 0.7 | 0.8 |
| Administration and shared services | 0.3 | 0.7 |
| Research and development | 1.3 | 0.7 |
| Financial income | (10.9) | (9.9) |
| Financial expenditure | 10.2 | 10.6 |
| | 2.4 | 4.4 |

# Notes to the Financial Statements year ended 31 March 2012 *continued*

## 21 RETIREMENT BENEFIT OBLIGATIONS *continued*

### Actuarial gains and losses shown in the Consolidated statement of Comprehensive Income

| | 2012 £m | 2011 £m |
|---|---|---|
| Actuarial (loss)/gain | (28.6) | 14.4 |

Cumulative actuarial losses reported in the Consolidated Statement of Comprehensive Income since 1 April 2004, the transition date to IFRS, are £17.8 million (2011: £10.8 million cumulative actuarial gains).

History of experience gains and losses are as follows:

| | 2012 £m | 2011 £m | 2010 £m | 2009 £m | 2008 £m |
|---|---|---|---|---|---|
| Present value of benefit obligations | 215.4 | 184.8 | 192.7 | 139.4 | 161.0 |
| Fair value of plan assets | (180.2) | (173.1) | (157.6) | (125.0) | (139.8) |
| Recognised liability for defined benefit obligations | 35.2 | 11.7 | 35.1 | 14.4 | 21.2 |
| Difference between the expected and actual return: | | | | | |
| Amount £m | (4.4) | 3.5 | 23.9 | (27.2) | (7.3) |
| % of scheme assets | (2.4%) | 2% | 15% | (22%) | (5%) |
| Experience (losses)/gains on scheme liabilities: | | | | | |
| Amount £m | (4.7) | 10.9 | (46.7) | 33.6 | 14.4 |
| % of the present value of the scheme liabilities | 2% | (6%) | 24% | (24%) | (9%) |

### Defined benefit scheme – United Kingdom

A full actuarial valuation of the UK plan was carried out as at 31 March 2009 and has been updated to 31 March 2012 by a qualified independent actuary. The major assumptions used by the actuary for the purposes of IAS 19 were (in nominal terms):

| | As at 31 March 2012 % | As at 31 March 2011 % |
|---|---|---|
| Discount rate | 4.9 | 5.6 |
| Rate of salary increase | n/a | n/a |
| Rate of increase to pensions in payment (pre 1997) | 2.4 | 2.4 |
| Rate of increase to pensions in payment (post 1997) | 3.1 | 3.2 |
| Rate of inflation (CPI) | 2.25 | 2.7 |
| Mortality – pre- and post-retirement – males and females | 94% of SP1A tables (97% for females) – year of birth: medium cohort (min annual improvement of 1%) | 94% of SP1A tables (97% for females) – year of birth: medium cohort (min annual improvement of 1%) |

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:

| | 2012 years | 2011 years |
|---|---|---|
| Pre-retirement – males | 23.7 | 23.0 |
| Pre-retirement – females | 26.0 | 25.2 |
| Post-retirement – males | 21.7 | 21.6 |
| Post-retirement – females | 24.1 | 23.9 |

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 plan and the expected rates of return were:

| | Long-term rate of return expected at 31 March 2012 % | Value at 31 March 2012 £m | Long-term rate of return expected at 31 March 2011 % | Value at 31 March 2011 £m |
|---|---|---|---|---|
| Equities | 7.9 | 48.6 | 7.9 | 64.3 |
| Corporate bonds | 4.9 | 45.1 | 5.6 | 45.8 |
| Gilts | 3.5 | 47.2 | 4.4 | 33.7 |
| Cash | 3.5 | 24.4 | 4.4 | 13.5 |
| Alternative | 7.3 | 8.3 | 7.2 | 9.2 |
| | | 173.6 | | 166.5 |

## Defined benefit scheme – United States

A full actuarial valuation of the US plan was carried out as at 1 January 2012 which for reporting purposes has been updated to 31 March 2012 by a qualified independent actuary. The major assumptions used by the actuary for the purposes of IAS 19 were (in nominal terms):

| | As at 31 March 2012 % | As at 31 March 2011 % |
|---|---|---|
| Discount rate | 4.75 | 5.75 |
| Rate of salary increase | n/a | n/a |
| Rate of increase to pensions in payment | 0.00 | 0.00 |
| Rate of inflation | 2.25% | 3.00 |
| Mortality – pre- and post-retirement | 2012 IRS prescribed mortality – optional combined table for small plans, male and female | 2011 IRS prescribed mortality – optional combined table for small plans, 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.

# Notes to the Financial Statements year ended 31 March 2012 *continued*

## 21 RETIREMENT BENEFIT OBLIGATIONS

### Defined benefit scheme – United States *continued*

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

| | Long term rate of return expected at 31 March 2012 % | Value at 31 March 2012 £m | Long term rate of return expected at 31 March 2011 % | Value at 31 March 2011 £m |
|---|---|---|---|---|
| Equities | 9.1 | 3.0 | 9.2 | 3.5 |
| Bonds | 4.8 | 3.2 | 6.1 | 2.9 |
| Property and other | 6.8 | 0.4 | 8.4 | 0.2 |
| | | 6.6 | | 6.6 |

### Defined contribution schemes

In the UK employees are offered participation in the defined contribution Oxford Instruments Stakeholder Plan. The Company contribution rate and employee contribution rate varies between grades and whether the individual had previously been in the Defined Benefit scheme. The Company contribution ranges between 4% and 14% of base salary. The Group also operates a 401k defined distribution plan in the USA. Details of pension schemes contributions made in respect of Directors can be found in the Directors' Remuneration Report.

## 22 TRADE AND OTHER PAYABLES

| | 2012 £m | 2011 £m |
|---|---|---|
| Trade payables | 31.1 | 29.7 |
| Advances received | 28.0 | 16.5 |
| Social security and other taxes | 2.5 | 1.5 |
| Accrued expenses and deferred income | 31.9 | 27.4 |
| Deferred consideration due with one year | 3.8 | – |
| Other creditors | 1.9 | 1.5 |
| | 99.2 | 76.6 |
| Amounts due after more than one year – other creditors (deferred consideration) | (2.8) | (0.1) |
| | 96.4 | 76.5 |

Deferred consideration relates to amounts payable in respect of acquisitions made in the year.

## 23 PROVISIONS FOR OTHER LIABILITIES AND CHARGES

| | Warranties £m | Other £m | Total £m |
|---|---|---|---|
| Balance at 1 April 2011 | 4.9 | 1.8 | 6.7 |
| Provisions made during the year | 3.9 | 2.6 | 6.5 |
| Provisions used during the year | (2.1) | (0.5) | (2.6) |
| Provisions released during the year | (1.3) | (0.3) | (1.6) |
| Balance at 31 March 2012 | 5.4 | 3.6 | 9.0 |

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. Other provisions relate to various obligations including claims and disputes arising against the Group in the ordinary course of business, obligations in respect of onerous leases and obligations to employees in Japan on termination of their employment. The Group's expectation is that the majority of the other provisions are likely to be utilised within a twelve month period.

## 24 OPERATING LEASES

### Leases

Non-cancellable future minimum operating lease rentals are payable as follows:

| | 2012<br>£m | 2011<br>£m |
|---|---|---|
| Less than one year | 3.3 | 2.2 |
| Between one and five years | 4.4 | 2.7 |
| Greater than five years | 2.5 | – |
| | 10.2 | 4.9 |

During the year ended 31 March 2012 £2.7 million was recognised as an expense in the Consolidated Statement of Income in respect of operating leases (2011: £2.2 million).

The majority of operating leases relate to properties occupied by the Group in the course of its business. There are no material contingent rent payment arrangements, purchase options or escalation clauses. It is expected that most leases could be renewed on the existing or similar terms. The leases do not impose any material restrictions in respect of dividends, additional debt requirements or further leasing.

## 25 CAPITAL COMMITMENTS

During the year ended 31 March 2012, the Group entered into contracts to purchase property, plant and equipment which are expected to be settled in the following financial year for less than £0.9 million (2011: £0.1 million).

## 26 CONTINGENCIES

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 any ongoing actions and investigations will not have a material impact on the Group's financial position.

## 27 RELATED PARTIES

Transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note. Executive directors are considered to be the key management personnel.

Remuneration is as follows:

| | 2012<br>£m | 2011<br>£m |
|---|---|---|
| Short term employee benefits | 1.6 | 1.5 |
| Post employment benefits | 0.1 | 0.1 |
| Share-based payment | 0.4 | 0.2 |
| Total | 2.1 | 1.8 |

Short-term employee benefits comprise salary and benefits earned during the year and bonuses awarded for the year.

During the year the Company paid £0.2 million (2011: £0.1 million) to Imperialise Limited, a company for whom Nigel Keen is a Director. The payment was for his services as Chairman of the Group. The liability due to Imperialise Ltd at the year end was £nil (2011: nil).

There are no other related party transactions.

# Notes to the Financial Statements
## year ended 31 March 2012 *continued*

### 28 PRINCIPAL GROUP ENTITIES

| | Equity owned by the company % | Country of Incorporation | Principal Activity |
|---|---|---|---|
| Oxford Instruments Industrial Products Holdings Ltd | 100 | England | Holding |
| Oxford Instruments Holdings Europe Ltd | 100 | England | Holding |
| Oxford Instruments Overseas Holdings Ltd | 100 | England | Holding |
| Oxford Instruments Overseas Holdings 2008 Ltd | *100 | England | Holding |
| Oxford Instruments Nanotechnology Tools Holdings Ltd | 100 | England | Holding |
| Oxford Instruments Overseas Marketing Ltd | *100 | England | Marketing |
| Oxford Instruments Industrial Products Ltd | *100 | England | Trading |
| Oxford Instruments Nanotechnology Tools Ltd | *100 | England | Trading |
| Omicron UHV Technik Ltd | *100 | England | Trading |
| Oxford Instruments America Inc | *100 | USA | Distribution |
| Oxford Instruments OST Holdings LLC | *100 | USA | Holding |
| Oxford Instruments OST Asset Co LLC | *100 | USA | Holding |
| Oxford Instruments Service LLC | *100 | USA | Trading |
| Oxford Instruments Superconductivity Wire LLC | *100 | USA | Trading |
| Oxford Instruments (Tennessee) Inc | *100 | USA | Holding |
| Oxford Instruments Holdings Inc | *100 | USA | Holding |
| Oxford Instruments Holdings 2008 Inc | *100 | USA | Holding |
| Oxford Instruments Austin, Inc | *100 | USA | Trading |
| Oxford Instruments X-Ray Technology Inc | *100 | USA | Trading |
| Oxford Superconducting Technology LP | *100 | USA | Trading |
| Omniprobe Inc | *100 | USA | Trading |
| Omicron Nanotechnology USA LLC | *100 | USA | Distribution |
| Oxford Instruments KK | *100 | Japan | Distribution |
| Oxford Instruments (Shanghai) Company Ltd** | *100 | China | Trading |
| Oxford Instruments HKL Technologies A/S | *100 | Denmark | Trading |
| Oxford Instruments Analytical Oy | *100 | Finland | Trading |
| Oxford Instruments SAS | *100 | France | Distribution |
| Omicron Nanotechnology GmbH | *100 | Germany | Trading |
| Oxford Instruments GmbH | *100 | Germany | Distribution |
| VeriCold Technologies GmbH | *100 | Germany | Trading |
| Oxford Instruments Analytical GmbH | *100 | Germany | Trading |
| Oxford Instruments Pte Ltd | *100 | Singapore | Marketing |

Equity owned by the Company represents issued ordinary share capital.

A full list of the Group companies as at 31 March 2012 is available for inspection at the Company's registered office.

With the exception of holding companies, all the above companies are engaged in the research, development, manufacture, service or sale of high technology tools and systems. Equity owned by subsidiary companies is indicated by an asterisk (*). All the above companies are consolidated in the Group accounts.

**Year end is 31 December.

## 29 SUBSEQUENT EVENTS

The interim dividend of 2.772p per share (total cost £1.6m) was paid after the year end. In addition, on 12 June 2012, the Directors proposed a final dividend of 7.228p per ordinary share (total cost £4.1 million). The total amount of £5.7 million has not been provided for and there are no income tax consequences.

## 30 EXCHANGE RATES

The principal exchange rates to sterling used were:

### Year end rates

| | 2012 | 2011 |
|---|---|---|
| US Dollar | 1.60 | 1.60 |
| Euro | 1.20 | 1.13 |
| Yen | 131 | 133 |

### Average translation rates 2012

| | US Dollar | Euro | Yen |
|---|---|---|---|
| Quarter 1 2012 | 1.63 | 1.13 | 132 |
| Quarter 2 2012 | 1.60 | 1.14 | 125 |
| Quarter 3 2012 | 1.57 | 1.17 | 121 |
| Quarter 4 2012 | 1.58 | 1.19 | 125 |

### Average translation rates 2011

| | US Dollar | Euro | Yen |
|---|---|---|---|
| Quarter 1 2011 | 1.50 | 1.17 | 138 |
| Quarter 2 2011 | 1.55 | 1.20 | 133 |
| Quarter 3 2011 | 1.57 | 1.17 | 130 |
| Quarter 4 2011 | 1.58 | 1.16 | 131 |

# Parent Company Balance Sheet
## as at 31 March 2012

| | Notes | 2012 £m | 2011 £m |
|---|---|---|---|
| **Fixed assets** | | | |
| Tangible assets | C | 0.5 | 0.7 |
| Investments in subsidiary undertakings | D | 146.4 | 127.2 |
| | | 146.9 | 127.9 |
| **Current assets** | | | |
| Debtors (including £56.6 million (2011: £40.0 million) due after more than one year) | E | 62.1 | 47.3 |
| Cash at bank and in hand | | 26.0 | 9.8 |
| | | 88.1 | 57.1 |
| **Creditors:** amounts falling due within one year | | | |
| Bank loans and overdrafts | | (10.0) | (13.8) |
| Other creditors | F | (31.4) | (22.1) |
| | | (41.4) | (35.9) |
| **Net current assets** | | 46.7 | 21.2 |
| **Total assets less current liabilities** | | 193.6 | 149.1 |
| **Creditors:** amounts falling due after more than one year | | | |
| Bank loans | G | – | (10.0) |
| Provisions for liabilities and charges | H | (0.2) | (0.2) |
| **Net assets** | | 193.4 | 138.9 |
| Share capital | I | 2.8 | 2.5 |
| Share premium account | I | 60.2 | 22.5 |
| Other reserves | I | 7.7 | 7.7 |
| Profit and loss account | I | 122.7 | 106.2 |
| **Equity shareholders' funds** | | 193.4 | 138.9 |

The Financial Statements were approved by the Board of Directors on 12 June 2012 and signed on its behalf by:

**Jonathan Flint**
Director

**Kevin Boyd**
Director

Company number: 775598

# Notes to the Parent Company Financial Statements



## A) ACCOUNTING POLICIES

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.

### 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 s408 of the Companies Act 2006, the Company is exempt from the requirement to present its own profit and loss account.

In accordance with FRS 1: Cash flow statements, the company is exempt from preparing its own cash flow statement.

### 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: Deferred Tax.

### 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 |
| Computer equipment | 4 years |
| Motor vehicles | 4 years |

### Financial instruments

The Company's accounting policies for financial instruments under UK GAAP, namely FRS 25 – Financial instruments: presentation, FRS 26 – Financial instruments: measurement and FRS 29 – Financial instruments: disclosures, are the same as the Group's accounting policies under IFRS, namely IAS 32 – Financial instruments: presentation, IAS 39 – Financial instruments: recognition and measurement and IFRS 7 – Financial instruments: disclosures. These policies are set out in accounting policy '(E) Financial instruments' in the Group accounting policies. As consolidated financial information has been disclosed under IFRS 7 in notes 16, 17 and 18 to the Group Financial Statements, the Parent Company is exempt from the disclosure requirements of FRS 29.

### 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 J for the additional disclosures required by FRS 17.

### Foreign currencies

The Company enters into forward exchange contracts and options 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.

# Notes to the Parent Company Financial Statements *continued*

## A) ACCOUNTING POLICIES *continued*

### Own shares held by Employee Benefit Trust (EBT)

Transactions of the Group-sponsored EBT are included in the Group Financial Statements. In particular, the trust's purchase of shares in the company are debited directly to equity.

### Investments

Investments in subsidiaries are stated at cost, less any provision for impairment, where appropriate.

### 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 April 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 employees become unconditionally entitled to the options. The fair value of the options granted is measured using an option pricing model, 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 conditions.

When options are granted to employees of subsidiaries of the Company, the fair value of options granted is recognised as an employee expense in the Financial Statements of the subsidiary undertaking together with the capital contribution received. In the Financial Statements of the Company, the options granted are recognised as an investment in subsidiary undertakings with a corresponding increase in equity.

### 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.

## B) PROFIT FOR THE YEAR

The Company's profit for the financial year was £20.3 million (2011: £12.6 million).

The auditor's remuneration comprised £115,000 (2011: £112,000) for statutory audit.

The average number of people employed by the Company (including Directors) during the year was 47 (2011: 42). All of these individuals were involved in administration.

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

| | 2012 £m | 2011 £m |
|---|---|---|
| Wages and salaries | 4.3 | 4.5 |
| Social security costs | 1.8 | 1.3 |
| Other pension costs | 0.5 | 0.2 |
| | 6.6 | 6.0 |

The share-based payment expense was £0.6 million (2011: £nil).

Full details of the emoluments paid to Directors can be found in the Directors' Remuneration Report on pages 43 to 52.

## C) TANGIBLE FIXED ASSETS

| | Land and buildings £m | Motor vehicles £m | Computer equipment £m | Total £m |
|---|---|---|---|---|
| **Cost** | | | | |
| Balance at 1 April 2011 | 0.3 | 0.2 | 3.5 | 4.0 |
| Additions | – | – | 0.1 | 0.1 |
| Disposals | (0.1) | (0.1) | – | (0.2) |
| **Balance at 31 March 2012** | 0.2 | 0.1 | 3.6 | 3.9 |
| **Depreciation** | | | | |
| Balance at 1 April 2011 | – | 0.1 | 3.2 | 3.3 |
| Charge for year | – | – | 0.2 | 0.2 |
| Disposal | – | (0.1) | – | (0.1) |
| **Balance at 31 March 2012** | – | – | 3.4 | 3.4 |
| **Net book value** | | | | |
| At 31 March 2011 | 0.3 | 0.1 | 0.3 | 0.7 |
| **At 31 March 2012** | 0.2 | 0.1 | 0.2 | 0.5 |

## D) INVESTMENTS

| | Investments in subsidiary undertakings £m | Other investments £m | Total £m |
|---|---|---|---|
| **Cost or valuation** | | | |
| Balance at 1 April 2011 | 142.9 | 0.3 | 143.2 |
| Additions | 19.2 | – | 19.2 |
| **Balance at 31 March 2012** | 162.1 | 0.3 | 162.4 |
| **Impairment** | | | |
| Balance at 1 April 2011 | 15.7 | 0.3 | 16.0 |
| **Balance at 31 March 2012** | 15.7 | 0.3 | 16.0 |
| Net book value at 31 March 2011 | 127.2 | – | 127.2 |
| **Net book value at 31 March 2012** | 146.4 | – | 146.4 |

Other investments at 31 March 2012 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 | 9.3% |

The addition to subsidiary investments of £18.8 million relates to investments in Oxford Instruments Holdings Europe Limited, as well as £0.4 million in relation to the awarding of share options to employees of subsidiary companies.

# Notes to the Parent Company Financial Statements *continued*

## E) DEBTORS

| | 2012 £m | 2011 £m |
|---|---|---|
| **Amounts falling due within one year:** | | |
| Amounts owed by subsidiary undertakings | 58.4 | 43.2 |
| Other debtors | 2.7 | 2.4 |
| Prepayments and accrued income | 0.6 | 0.7 |
| Deferred tax asset | – | 0.6 |
| Tax recoverable | 0.4 | 0.4 |
| | 62.1 | 47.3 |

Amounts owed by subsidiary undertakings includes £56.6 million (2011: £40.0 million) due after more than one year.

## F) OTHER CREDITORS

| | 2012 £m | 2011 £m |
|---|---|---|
| Trade creditors | 0.4 | 0.1 |
| Amounts owed to subsidiary undertakings | 26.0 | 16.8 |
| Tax, social security and sales related taxes | 1.1 | 0.9 |
| Other financial liabilities | 1.0 | 1.2 |
| Accruals and deferred income | 2.9 | 3.0 |
| Other creditors | – | 0.1 |
| | 31.4 | 22.1 |

## G) CREDITORS: AMOUNTS FALLING DUE AFTER ONE YEAR

Details of the bank loans are included in note 20 of the Group Financial Statements.

## H) PROVISIONS FOR LIABILITIES AND CHARGES

| | Vacant lease provision £m |
|---|---|
| Balance at 1 April 2011 | 0.2 |
| Utilised during the year | – |
| Balance at 31 March 2012 | 0.2 |

The transfer of economic benefits in relation to the vacant lease provisions is expected to be within one year.

### Deferred tax asset

| | 2012 £m | 2011 £m |
|---|---|---|
| Balance at 1 April | 0.6 | – |
| Profit and loss (charge)/credit | (0.6) | 0.6 |
| Balance at 31 March | – | 0.6 |

The amounts of deferred tax assets are as follows:

| | 2012 £m | Recognised 2011 £m |
|---|---|---|
| Excess of depreciation over corresponding capital allowances | – | 0.6 |
| Other timing differences | – | – |
| | – | 0.6 |

The Company recognises deferred tax 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. Deferred tax assets have not been recognised for losses of £7.3 million as the Company does not expect to generate suitable taxable profits in the foreseeable future.

## I) RESERVES

| | 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 2011 | 2.5 | 22.5 | 0.1 | 7.6 | 106.2 | 138.9 |
| Retained profit for the year | – | – | – | – | 20.3 | 20.3 |
| Proceeds from shares issued | 0.3 | 37.7 | – | – | – | 38.0 |
| Share options awarded to employees | – | – | – | – | 0.6 | 0.6 |
| Share options awarded to employees of subsidiaries | – | – | – | – | 0.4 | 0.4 |
| Dividends paid | – | – | – | – | (4.8) | (4.8) |
| **Balance at 31 March 2012** | 2.8 | 60.2 | 0.1 | 7.6 | 122.7 | 193.4 |

Details of issued, authorised and allotted share capital are included in Note 19 of the Group Financial Statements.

Details of treasury shares held by the Company are included as a note to the Consolidated Statement of Changes in Equity.

Details of the Group's share option schemes are included in Note 8 of the Group Financial Statements.

Other reserves relates to premium on shares issued as part of acquisitions made in the year to 31 March 1987.

## J) PENSION COMMITMENTS

### Defined benefit scheme

The Oxford Instruments Pension Scheme, a defined benefit scheme was closed to new members from 1 April 2001 and to future accrual from the year to 31 March 2011. The company continues to make deficit recovery contributions to this scheme. Contributions are based on the pension deficit of the Group as a whole. The assets of the Scheme are held in a separate trustee administered fund.

The Directors do not believe it is possible to allocate the assets and liabilities of the scheme to individual group members on a consistent and reasonable 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. Details of the scheme and most recent actuarial valuation can be found in note 21 of the Group Financial Statements. The contributions paid by the Company to the Oxford Instruments Pension Scheme were £0.3 million (2011: £0.1 million).

### Stakeholder pension scheme

The Company makes contributions to a stakeholder pension scheme. The pension costs charge for the year represents contributions payable by the Company to the scheme. These amounted to £0.2 million (2011: £0.1 million). There were no outstanding contributions at the end of the financial year (2011: £nil).

## K) GUARANTEES

The Company has given a guarantee to the pension scheme in respect of the liability of its UK subsidiaries to the pension scheme. The guarantee is for the excess of 105% of the liabilities of the scheme, calculated on the basis of Section 179 of the Pensions Act 2004, over the assets of the scheme.

## L) COMMITMENTS

At 31 March 2012, capital commitments contracted were £0.5 million (2011: £nil) and authorised were £2.0 million (2011: £nil). The majority of this relates to new software.

## M) SUBSEQUENT EVENTS

See note 29 of the Group Financial Statements for details of dividends paid or declared after the Balance Sheet date.

## N) RELATED PARTY TRANSACTIONS

The Company has a related party relationship with its Directors and Executive officers and with its wholly owned subsidiary companies.

Transactions with key management personnel are disclosed in the Director's Remuneration Report on pages 43 to 52.
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 paid £0.2 million (2011: £0.1 million) to Imperialise Limited, a company for whom Nigel Keen is a Director. The payment was for his services as Chairman of the Group. The liability due to Imperialise Ltd at the year end was nil (2011: nil).

# Historical Financial Summary

| | 2008 £m | 2009 £m | 2010 £m | 2011 £m | 2012 £m |
|---|---|---|---|---|---|
| **Consolidated Statement of Income** | | | | | |
| Revenue | 176.5 | 206.5 | 211.5 | 262.3 | 337.3 |
| Adjusted operating profit* | 10.6 | 13.1 | 14.7 | 28.1 | 42.1 |
| Other operating income | – | – | – | 4.7 | 7.0 |
| Reversal of acquisition related fair value adjustments | – | – | – | – | (1.7) |
| Acquisition related costs | – | – | – | – | (1.5) |
| Reorganisation costs and impairment | 0.7 | (6.8) | (0.4) | (0.6) | – |
| Amortisation of acquired intangibles | (2.9) | (4.3) | (4.1) | (4.7) | (11.2) |
| Operating profit | 8.4 | 2.0 | 10.2 | 27.5 | 34.7 |
| Net financing (costs)/income | (3.4) | (11.3) | 7.9 | (0.8) | 1.4 |
| Profit/(loss) before taxation | 5.0 | (9.3) | 18.1 | 26.7 | 36.1 |
| Income tax (expense)/credit | (2.3) | 2.6 | (4.8) | 5.5 | (11.3) |
| Profit/(loss) for the year | 2.7 | (6.7) | 13.3 | 32.2 | 24.8 |
| Adjusted profit before tax* | 9.5 | 11.1 | 11.9 | 26.2 | 42.0 |
| **Consolidated Statement of Financial Position** | | | | | |
| Property, plant and equipment | 22.4 | 23.5 | 22.8 | 23.6 | 28.2 |
| Intangible assets | 44.0 | 54.9 | 49.3 | 41.6 | 78.1 |
| Available for sale equity securities | 0.6 | – | – | – | – |
| Deferred and current tax | 1.5 | 2.5 | 4.5 | 11.2 | 7.6 |
| Inventories | 34.9 | 39.9 | 39.3 | 46.6 | 59.3 |
| Trade and other receivables | 54.1 | 57.6 | 60.2 | 52.5 | 61.0 |
| Trade and other payables | (48.6) | (54.3) | (70.0) | (76.6) | (99.2) |
| Net assets excluding net cash | 108.9 | 124.1 | 106.1 | 98.9 | 135.0 |
| Cash and cash equivalents | 7.2 | 3.6 | 9.3 | 23.7 | 35.1 |
| Bank borrowings | (25.0) | (31.9) | (19.7) | (10.6) | – |
| Net cash | (17.8) | (28.3) | (10.4) | 13.1 | 35.1 |
| Provisions and other items | (7.4) | (19.5) | (8.4) | (6.8) | (7.8) |
| Retirement benefit obligations | (21.2) | (14.4) | (35.1) | (11.7) | (35.2) |
| Net assets employed/capital and reserves attributable to the company's equity holders | 62.5 | 61.9 | 52.2 | 93.5 | 127.1 |
| **Cash flow** | | | | | |
| Net cash from operating activities | (0.1) | 14.4 | 31.1 | 35.3 | 41.6 |
| Net cash used in investing activities | (15.1) | (10.6) | (9.1) | (8.8) | (52.2) |
| Net cash from financing activities | 19.4 | (6.6) | (16.0) | (12.3) | 22.6 |
| Net increase/(decrease) in cash equivalents | 4.2 | (2.8) | 6.0 | 14.2 | 12.0 |

| | pence | pence | pence | pence | pence |
|---|---|---|---|---|---|
| **Per ordinary share** | | | | | |
| Earnings – continuing | 5.6 | (13.9) | 27.2 | 65.3 | 46.0 |
| Adjusted earnings* | 11.7 | 14.8 | 17.8 | 41.5 | 61.6 |
| Dividends | 8.4 | 8.4 | 8.4 | 9.0 | 10.0 |
| **Employees** | | | | | |
| Average number of employees | 1,501 | 1,531 | 1,341 | 1,498 | 1,834 |

* Adjusted numbers are stated to give a better understanding of the underlying business performance. Details of adjusting items can be found in note 1 of the Group Financial Statements.

# Shareholder Information



## FINANCIAL CALENDAR

| | |
|---|---|
| **7 March 2012** | Ordinary shares quoted ex-dividend |
| **9 March 2012** | Record date for interim dividend |
| **16 March 2012** | Dividend reinvestment (DRIP) last date for election |
| **31 March 2012** | Financial year end |
| **10 April 2012** | Payment of interim dividend |
| **12 June 2012** | Announcement of preliminary results |
| **12 June 2012** | Announcement of final dividend |
| **Late July** | Publication of Annual Report |
| **11 September 2012** | Annual General Meeting |
| **26 September 2012** | Ordinary shares quoted ex-dividend |
| **28 September 2012** | Record date for final dividend |
| **30 September 2012** | DRIP Date |
| **25 October 2012** | Payment of final dividend |
| **13 November 2012** | Announcement of interim results |
| **March 2013** | Ordinary shares quoted ex-dividend |
| **March 2013** | Dividend reinvestment (DRIP) last date for election |
| **March 2013** | Record date for interim dividend |
| **31 March 2013** | Financial year end |

## ADMINISTRATIVE ENQUIRIES CONCERNING SHAREHOLDINGS

You may view your shareholding and dividend history, register to receive your dividends direct to your bank account or elect to re-invest your dividends and register a change of address online at www.capitashareportal.com. To register to use this facility you will need your Investor code (IVC), which can be found on your share certificate, dividend tax voucher or proxy card.

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, Capita Registrars.

The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU

**Tel:** 0871 664 0300 (calls cost 10p per minute plus network extras; lines are open 8.30am to 5.30pm, Monday to Friday)

**Overseas callers:** +44 20 8639 3399

**Email:** shareholder.services@capitaregistrars.com

**Website:** www.capitashareportal.com

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

## DIVIDEND BANK MANDATES

If you wish dividends to be paid directly into a bank or building society account and notification to be sent to your shareholder register address, please contact the Company's Registrar at the address given above for a dividend mandate form. Overseas holders can also choose to receive payment directly into their bank account, or can be sent a draft in local currency. Further details are available from Capita Registrars.

The Registry, 34 Beckenham Road, Beckenham, Kent BR3 9ZA

**Tel:** 0871 664 0385 (calls cost 10p per minute plus network extras; lines are open to 9.00am to 5.30pm, Monday to Friday)

**Overseas callers:** +44 20 8639 3405

**Website:** or by logging on to www.capitaregistrars.com/international.

## DUPLICATE SHARE REGISTER ACCOUNTS

If you are receiving more than one copy of our report, it may be that your shares are registered in two or more accounts on our register of members. If that was not your intention you might consider merging them into one single entry. Please contact Capita who will be pleased to carry out your instructions.

# Shareholder Information *continued*

## SHAREHOLDER COMMUNICATIONS

Unless you have elected to continue to receive shareholder communications by post, you will be notified by post or, where you have given us an email address for electronic notification, by email that shareholder communications are available for viewing on the Company's website at www.oxford-instruments.com/investors. The Company reserves the right to distribute any communication in hard copy if it deems this necessary.

## SHAREHOLDER ENQUIRIES

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

Company Secretary, Oxford Instruments plc
Tubney Woods, Abingdon, Oxon OX13 5QX

**Tel:** 01865 393200

**Fax:** 01865 393442

**E-mail:** info.oiplc@oxinst.com

**Website:** www.oxford-instruments.com

## COMPANY REGISTRATION

Registered office: Tubney Woods, Abingdon, Oxon OX13 5QX

Registered in England number: 775598

## WEBSITE

**www.oxford-instruments.com**

Oxford Instruments has an extensive website which gives details of all its products and services, contact information, vacancies and latest news announcements. An interactive investor relations section gives information on recent trading reports, share price data and forthcoming events.

## CAPITA SHARE DEALING SERVICES

A quick and easy share dealing service to either sell or buy shares in many leading UK companies is provided by Capita Share Dealing Services. An on-line and telephone facility is available providing our shareholders with an easy to access and simple to use service. There's no need to pre-register and there are no complicated forms to fill in. The online and telephone dealing service allows you to trade "real time" at a known price which will be given to you at the time you give your instruction. To deal on-line or by telephone all you need is your surname, Investor Code (IVC*) reference number, full postcode and your date of birth. Your Investor Code can be found on a recent share certificate, statement or tax voucher. Should you not be able to locate your IVC number, please contact Capita Registrars on 0871 664 0300 (calls cost 10p per minute plus network extras; lines are open 8.30am to 5.30pm, Monday – Friday). Please have the appropriate documents to hand when you log on or call, as this information will be needed before you can buy or sell shares.

For further information on this service, or to buy and sell shares, please contact: www.capitadeal.com (online dealing) or 0871 664 0446 (telephone dealing – calls cost 10p per minute plus network extras; lines are open 8.00am to 4.30pm, Monday – Friday excluding public holidays). Full terms, conditions and risks apply and are available on request or by visiting www.capitadeal.com.

This is not a recommendation to buy or sell shares. Remember the price of shares can go down as well as up, and you are not guaranteed to get back the amount that you originally invested.

## ANALYSIS OF SHAREHOLDERS AS AT 31 MARCH 2012

| Size of shareholding | Number of holders | % of total | Total holding | % of total |
|---|---|---|---|---|
| Up to 5,000 shares | 2,288 | 87.29 | 1,486,073 | 2.65 |
| 5,001 to 50,000 shares | 201 | 7.67 | 3,129,113 | 5.57 |
| 50,001 to 200,000 shares | 82 | 3.13 | 8,944,392 | 15.92 |
| Over 200,000 shares | 50 | 1.91 | 42,607,145 | 75.86 |
| Total | 2,621 | 100.00 | 56,166,723 | 100.00 |

# Oxford Instruments Directory

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**Systems for materials analysis at the nanoscale**
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