Innovation + Implementation

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Summary of Results	2003 £ million	2002 £ million
Group turnover of continuing operations, excluding share of joint venture	**186.6**	211.9
Operating profit of continuing operations before exceptional items, excluding share of joint venture	**6.7**	6.7
Profit of continuing operations before exceptional items, interest and taxation	**8.3**	11.9
Exceptional items before tax	**(2.1)**	3.0
Earnings attributable to shareholders from continuing operations before exceptional items	**4.4**	7.8
Net assets employed	**89.2**	95.2
Closing net cash/(borrowings)	**3.3**	(4.0)

	2003 pence	2002 pence
Earnings per share from continuing operations, before exceptional items and goodwill amortisation	**9.9**	16.6
Earnings per share from continuing operations, before exceptional items	**9.5**	16.6
Dividends per share	**8.4**	8.4
Net assets per share	**186.0**	198.7

Number of employees of continuing operations	**1,560**	1,798

Group Profile

Analytical
A specialist in the design, supply and support of instruments and components, primarily based on X-ray technology, for the chemical analysis of a wide range of industrial materials. Also a leader in the supply of products for semiconductor, telecommunications and optoelectronics markets for the deposition and etching of materials using plasma processing.

Medical
An international supplier of measuring instruments and accessories for the routine monitoring of certain physiological properties of the human body. A leader in the supply of products for the detection of muscle and nerve impulses, including the specialised needle electrodes needed to make these measurements, as well as equipment to monitor heart function in humans throughout life and before birth. Customers are hospitals and doctors' clinics worldwide.

Superconductivity
The world leader in the supply and maintenance of superconducting materials, intense magnetic fields and low temperatures for use in chemical and biochemical analysis, scientific research and various industrial and medical applications.

Oxford Magnet Technology
Oxford Magnet Technology (OMT) is a joint venture between Oxford Instruments (49%) and Siemens (51%) which manufactures magnets used in magnetic resonance imaging (MRI) bodyscanners.

	Analytical results		Medical results		Superconductivity results		OMT results – 49% share	
Continuing operations	**2003 £ million**	2002 £ million	**2003 £ million**	2002 £ million	**2003 £ million**	2002 £ million	**2003 £ million**	2002 £ million
Turnover	**61.6**	81.2	**36.3**	39.3	**88.7**	91.4		
Operating profit/(loss)	**2.8**	7.9	**(0.8)**	(1.5)	**4.7**	0.3	**1.6**	5.2
Operating assets	**29.6**	34.5	**17.7**	21.2	**31.3**	33.3		
Employees	**536**	641	**299**	337	**725**	820		

Oxford Instruments has, for over forty years, been a global leader in advanced instrumentation. The first business to be spun out from Oxford University, the Company today employs over 1,500 people in 16 countries and has been listed on the London Stock Exchange since 1983.

We are active in markets where we can exploit growth opportunities and where we can create significant barriers to entry through our proprietary technology. Currently, these include measuring equipment for scientific and industrial research, quality control and life science applications as well as systems for the processing of semiconductor materials. Our customers include major international companies as well as world-leading research institutes.

We have always been known for our outstanding innovative capabilities and have a string of technical 'firsts' to our name. We couple our technical excellence with world class processes for the effective delivery of this innovation to the market. We are committed to using these strengths for the benefit of our shareholders and all the other stakeholders in our business.

Innovation + acceleration

Car manufacturers today demand highly flexible and responsive supply chains. Major car component suppliers such as Bosch are now using the Oxford Instruments 'Horizon600' portable analyser for the rapid non-destructive chemical analysis of critical materials on the factory floor. Incoming materials can be checked in real time, maintaining quality without sacrificing speed.

Analytical

We set out in 1999 to transform the operational capability of the Company, recognising that our undisputed innovative talents had not been consistently translated into strong commercial returns. In the past three years, we have focussed each business on an intensive programme of operational improvement designed to upgrade radically the quality and cost-effectiveness of our service to customers and to create enhanced value for our shareholders.

I can report that a number of the key customer-facing and financial measures of performance in our wholly-owned businesses have demonstrated significant additional progress during the past year. We will ensure that the programmes already in place continue to deliver progressive financial benefits while we refine and then deliver on the preferred strategic growth and value creation options for each business. I would like to thank all of our employees for their contribution to the progress which has been demonstrated during the year.

Orders for the year of £186 million were close to the levels achieved in 2002 (£189 million), a robust result in the current economic climate. The geographic spread of activity was similar to 2002, with the USA and Asia in particular holding up well. While demand from the semiconductor equipment sector declined further, new orders from the scientific research segment increased during the year.

Turnover for the year of £187 million matched the rate of receipt of new orders. This was 12% lower than the previous year (£212 million) during which operational improvements permitted the high order backlog to be reduced. Sales into the scientific research markets grew to 25% of the total (2002 20%), but this was offset by continued weakness in certain industrial sectors. In particular, the semiconductor industry accounted for only 6% of sales, down from 13% in 2002.

Margins improved, with gross profit for continuing businesses increasing from 30.8% to 32.1%. Operating profits of continuing operations for the wholly-owned businesses excluding exceptional items and goodwill improved to £6.9 million (2002 £6.7 million). This encouraging result was achieved despite the further downturn in semiconductor demand and on reduced turnover, confirming that the cost reduction and operational improvement programmes over the past three years have generated a strong platform for the ongoing business.

Exceptional items included redundancies of £1.7 million as we reduced our cost base and a charge of £0.4 million incurred on the termination of the distribution agreement of a loss-making product for 'sleep' analysis. Staff numbers in the wholly-owned businesses were reduced by 13% during the year to 1,560 in March 2003. The incremental benefits in 2003/04 from this reduction will be approximately £1.4 million. In October 2002, the loss-making 'Process Systems' business was sold to its management for a consideration based primarily on future performance and is shown as a discontinued business. This business lost £0.7 million in the period until disposal (2002 £1.4 million loss).

As indicated in our trading update on 26 March 2003, Oxford Magnet Technology (OMT), the body scanner magnet business operated as a joint venture with Siemens, contributed a much-reduced operating profit of £1.6 million (2002 £5.2 million). This reflected increased spend on the development of new products, higher operational costs and lower selling prices.

Horses have neurological problems too. While the vast majority of our electromyography equipment is hard at work diagnosing the muscle and nerve problems of human patients in hospitals and doctors' clinics world-wide, the four-legged patients at the Animal Health Trust in Newmarket have also benefited from successive advances in our products for over 30 years. Not just horses, but cats and dogs too.

Innovation + examination

Medical

The initial 15-year term of the OMT joint venture with Siemens comes to an end in September 2004. Taking into account the poor recent trading performance of OMT and the increasing dominance of Siemens as an OMT customer, we are continuing our discussions with both Siemens and other potential partners to ensure that a continuing investment in OMT after 2004 would be in the best interests of our shareholders. While Siemens has indicated a preference for an ongoing relationship with Oxford Instruments beyond that date, an agreement has not yet been reached that appropriately reflects the unique skills and expertise that Oxford Instruments believes it can bring to the market for MRI magnets and systems. Currently, Siemens believes that the amount of any settlement resulting from an end to the joint venture would not be material.

Closing net cash was a healthy £3.3 million, compared with net borrowings the previous year of £4.0 million. The strong cash generation of £7.3 million during the year was driven by aggressive programmes on stock reduction and debtor control, a further indication of improved operational efficiency and quality of the businesses. Interest and other finance charges during the year were unchanged at £1.5 million.

The tax rate on profits of continuing businesses was 35%, up from 26% last year. This is higher than the standard UK tax rate of 30% due to the higher tax rates overseas, particularly the USA. Total reported earnings for the year of £1.2 million (2002 £9.4 million) included after tax profits of £4.4 million (2002 £7.8 million) from continuing businesses, exceptional losses of £1.7 million (2002 £2.5 million profit) and losses of £1.5 million (2002 £0.9 million loss) from discontinued businesses.

Earnings per share from continuing businesses before exceptional items were 9.5 pence (2002 16.6 pence). The Board has recommended a final dividend of 6.0 pence, making a total for the year of 8.4 pence, unchanged from last year.

The Company continues to account for pensions in accordance with SSAP 24. However, following stock market and interest rate falls during the year, the combined deficit of the three defined benefit pension plans under the FRS 17 accounting standard has increased from £5 million to £23 million after deducting the related deferred tax asset. The principal (UK) scheme was closed to new members in 2001 and contributions from both the Company and employees will be reviewed as soon as the results of the triennial actuarial valuation, as at 31 March 2003, are available.

During the year, Bernard Taylor joined the Board as a non-executive director. Bernard is Vice Chairman of JP Morgan plc and brings to the Board valuable and relevant expertise as we complete our recovery and drive the Company forward strategically.

Our Superconductivity business is moving ahead strongly, while our Analytical business is trading profitably and is well positioned to benefit from an eventual market upturn. However, our Medical business has failed to show the anticipated improvement in the year. Recognising that there are several strong Medical product lines in the portfolio, we are taking urgent action to bring more focus to this business and to ensure that value is restored.

The performance of the wholly-owned businesses in difficult economic circumstances over the past twelve months has been encouraging and the volume of new business since the start of 2003/04 has been similar to that at the start of last year.

We are determined in our efforts to build on this success and to generate increased shareholder value.

Nigel Keen Chairman
3 June 2003

Superconductivity

Innovation + attraction

A magnetic field 300,000 times stronger than the earth's can now be created in a laboratory at the University of Nottingham using our latest superconducting wire and magnet technology. This unique magnetic field can be used to levitate heavy and dense materials. Strawberries are just for starters – the researchers at Nottingham can even levitate diamonds. Commercially important zero-gravity experiments such as seed germination and mineral separation can now be simulated on earth at much lower cost than space-borne measurements.

Performance improvement

Over the past year, our operational improvement programmes have enabled all businesses to improve the timeliness, lead time and quality of products delivered to our customers. Maintaining the focus on these measures has been critical at a time when conditions in a number of our markets have been challenging. During the year, all our major manufacturing sites obtained accreditation under the new ISO9000:2000 standard, well ahead of the December 2003 deadline. We were also very pleased that two of our businesses were awarded Queen's Awards this year, another significant external recognition of our achievements.

There are several key processes where a cross-business approach to operational improvement is generating benefits across the Company. Improvements in the management of our supply chains have contributed to stock reductions of 22% (£11 million), with opportunities for further progress going forward. We are also implementing new sourcing arrangements for a number of commodity components and sub-assemblies from low-cost countries. We expect this initiative to generate significant additional savings in future years.

The invention and commercialisation of innovative new products remains a critical process for all our businesses. We continue to refine our approach to the development of new products, aiming to maximise the commercial success of our R&D investment (£12.6 million, or 7% of sales in 2003). In parallel, we are driving a fundamental change in our approach to the active management of intellectual property. One measure of this is the 17 new patents awarded in the last two years, a significant increase in activity. We have also signed a long-term agreement with Cambridge University involving the creation of a new laboratory set up to exploit intellectual property developed over a number of years within the Company relating to superconducting detectors.

The improvement in key operational processes is being supported by structured work on enhancing the performance culture in the organisation. Performance reviews of staff are now more closely linked to business plans and budgets. Individual and team performance is linked to financial rewards, while succession plans for key roles have been developed. We have also articulated the values by which we work and to which we aspire in order to help all staff understand better how to contribute to the business.

Our multi-year programme to upgrade our IT infrastructure has reached an important milestone, with all UK manufacturing sites now generating business benefits from the extra flexibility provided by running the new IT packages. We aim to shorten product lead times by linking our overseas sales offices into the network, allowing, for example, direct entry of customer orders into the UK-based manufacturing system from the USA.

As we have consolidated our improved operational performance over the past year, we have started to explore in more depth the strategic growth options for each business. With the help of external expertise, we now have a clearer view of our opportunities for both organic and acquisition-led growth for the Company. This will help to guide our strategic priorities going forwards.

Analytical

Turnover of the business in the year dropped by 24% to £61.6 million (2002 £81.2 million) as a result of the collapse in demand from the semiconductor and telecommunications capital equipment market. Turnover into other industrial segments was reasonably stable, with demand from Asia outside Japan remaining strong. Operating profits recovered in the second half, generating £2.8 million profit for the year (2002 £7.9 million). Gross margins were maintained despite significant pricing pressure in challenging markets.

Orders for our market-leading 'INCA' product used for the chemical analysis of materials increased during the year, helped by the introduction of a new software package which automates the routine analysis of very small particles. This product line also benefited from a continued strong sales performance in Japan by our partner, Horiba.

Efficient new product development is critical for future profitability. Our new 'Horizon' hand-held spectrometer is designed for rapid and accurate measurement of chemical properties of materials such as alloys in the field. It uses a unique nanotechnology based X-ray source designed and manufactured by our X-ray Technology business in California. Initial sales of this product have been encouraging and we expect further growth from this highly differentiated product as we explore new applications and receive further government approvals during the coming year. Another major new spectrometer platform – the 'Twin-X' – was launched in February 2003 and initial sales have been made successfully. This product hits a new price/performance point for chemical analysis in the industrial quality control market and is expected to lead to incremental sales growth in the future.

We have matched our investment in new product development to market demand, concentrating on the roll-out of the recently launched new products, while reducing our investment in areas such as new equipment for the optical communications industries until the future for these markets becomes clearer. Staff numbers have been reduced by 16% to 536 during the year and we will continue to manage our costs in line with the order prospects.

Recent new orders for the Analytical business have shown some recovery and we have been encouraged recently by the award of a contract from a major semiconductor device manufacturer, a new account for the Company. The new product launches will increase our competitiveness and we enter the new financial year with a lower cost base. The business will be a beneficiary of any cyclical recovery, although in the short term it is unclear whether any prolongation of the SARS epidemic will affect sales in the important Asian market.

Medical

Turnover for the year of £36.3 million was 8% down (2002 £39.3 million), primarily as a result of the decision to reduce the volume of non-core third-party products being sold through our overseas sales channels. Performance in the second half improved as a result of initiatives driven by new management appointments made at the half year, but the operating loss before exceptional items for the year was still £0.8 million (2002 £1.5 million loss).

Operating efficiency has been improved significantly during the year, with stock levels down 36% and average product lead times reduced by over 50%. Staff numbers have been reduced by 11%, lowering the cost base further for 2003/04.

The 'Synergy' product, launched in 2001 for the improved clinical measurement and analysis of nerve and muscle problems, continues to grow its market, with unit sales up by over 10% last year. Sales of neurology accessories, including the world-leading range of 'Teca' single-use needles, have held up well and are starting to benefit from recent increased management focus. This is aimed at improving our sales channels outside the USA and at developing an enhanced range of accessories.

Our distribution relationship with Compumedics, an Australian supplier of products for sleep analysis, has been terminated. Product acceptance by European customers in particular had been disappointing and integration of the software with our neurology products was poor. Losses associated with the termination of this product line during the year were £0.4 million.

We have recently renegotiated a key agreement for the supply of electroencephalography products, used by neurologists for the measurement and analysis of brain function. Product manufacture and testing will now be carried out by the supplier and we will become a distributor of the product in key territories where our sales channel strengths allow us to generate an acceptable margin. It is estimated that this will result in an improvement of around £0.5 million in the contribution of this product line in 2003/04.

Overall, performance of the Medical business remained below expectations. We have taken preliminary action to reduce the losses on key product lines, while maintaining the focus on operational efficiency, margin improvement and cost reduction. The strategic review of the business in the past year will guide ongoing product line changes designed to further improve returns.

Superconductivity

Turnover of £88.7 million (2002 £91.4 million) matched the intake of new orders, which were above the level of the previous year. By comparison, the turnover in 2002 was inflated by the delivery during that year of a number of large and overdue projects. Operating profits increased to £4.7 million (2002 £0.3 million) as the business began to show significant benefits from the investments made over the past three years. The one remaining 'legacy' project still under construction passed a major technical milestone in the year and is due for completion in 2003/04.

The launch of the world-leading 'Discovery' magnet used for new drug discovery has continued to make good technical progress. Following the successful operation of the first unit in Japan in the first half of the year, a second is currently under installation while a third unit is being prepared for delivery.

Further magnets are being tested in-house and are demonstrating significant improvements in performance and internal yield. The launch costs of this flagship product have been higher than originally expected and this has temporarily held back margin improvement and profits growth in the second half. However, we expect the benefits of this investment will materialise rapidly both in increased 'Discovery' shipments going forward as well as in higher unit profitability. We have also already used the knowledge and expertise gained to launch other smaller products in the 'Discovery' product family into this growing market.

The business continues to drive for further improvements in operating efficiency. Its cost base going forward will benefit in the future from the reduction of 100 staff numbers made in the first half of the year (12% of the total), while operational indicators including on-time delivery and lead times all continue to show significant improvements.

Following the resolution of the majority of the past technical problems, the magnet business has started in the past year to explore a number of new product developments, particularly into the life sciences market where there are several growth opportunities in addition to those presented by the 'Discovery' product family. Separately, the recent launch of a new range of modular ultra-low temperature equipment will also serve a variety of research applications, including the study of quantum computers for which a major government-funded joint project involving the Company, Oxford University and Hitachi is now under way.

Our superconducting wire business had another good year, maintaining its position as a leading supplier of wire for MRI body scanner magnets. The business is investing aggressively in cost and lead time reduction programmes with its customers to improve its efficiency and to maintain competitiveness. A new wire involving significant technical innovation and designed to enable the construction of ultra high field magnets is attracting customer interest.

Our MRI magnet field service business in the USA received a 'Top Plus' award from Siemens Medical Systems (SMS) for the second year in a row. In addition, we won the 'Best Practices in Technology' award from SMS, recognising our particular excellence in this area.

The 49% share of OMT, our joint venture with Siemens, generated operating profits of £1.6 million (2002 £5.2 million) on total turnover of £115 million (2002 £125 million). Increased development spend associated with the launch of several new products, high production costs and lower customer prices all contributed to the reduction in profits. Following a recent decision by Philips Medical to continue to source the majority of its magnets elsewhere, Siemens is likely to become an increasingly dominant customer for OMT. While production efficiency is expected to recover, the other pressures on the business will continue.

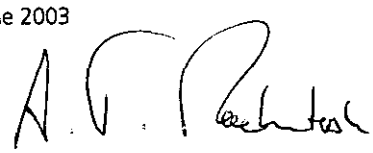
Prospects

With our wholly-owned businesses now on a stable operational footing, our primary objective remains to increase their profitability. Against the background of uncertain world markets, we intend to achieve this by focussing on cost control and margin improvement, rather than relying on near-term volume growth. Several of our product lines are capable of significant and profitable development over the medium term and we will maintain investment in these activities, so that we are best positioned to benefit as markets recover.

We have made considerable progress in eliminating product lines which are not, or do not have a prospect of, making an adequate contribution to the overall financial performance of the business. This remains an ongoing process and we are taking further actions to ensure that all businesses deliver an improved return to investors.

We will continue to support and develop our innovative capabilities, knowing that with the sound operational platform we have created over the past three years we can translate our strengths in innovation into profitable added-value products which have the potential to become world market leaders.

Andrew Mackintosh Chief Executive
3 June 2003



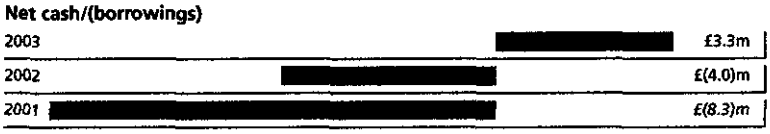
Orders (continuing, wholly-owned businesses)

Turnover (continuing, wholly-owned businesses)

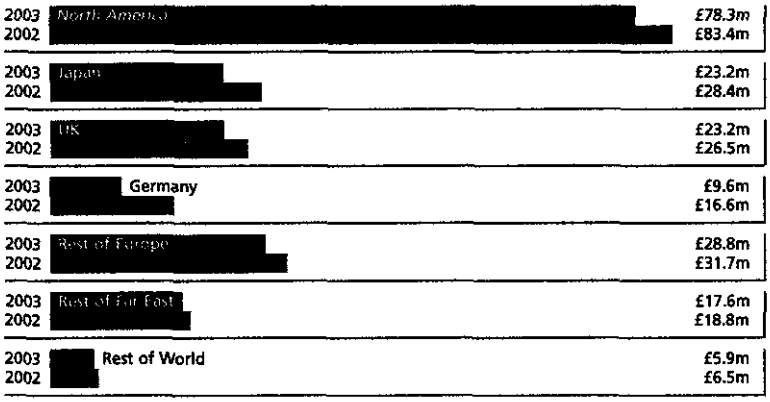
Operating profit (continuing, wholly-owned businesses, excluding exceptionals)

Pre-tax profit (continuing operations, excluding exceptionals)

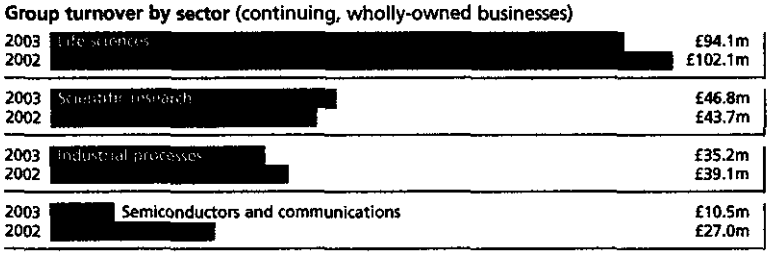
Net cash/(borrowings)



Group turnover by region (continuing, wholly-owned businesses)



Group turnover by sector (continuing, wholly-owned businesses)



Trading results

Group turnover for continuing operations for the year to 31 March 2003 of £186.6 million was £25.3 million lower than the previous year reflecting the downturn in the semiconductor industry. The Group operating profit of the continuing operations was £8.3 million, before exceptional items and interest, down £3.6 million from the previous year. With operating profits from the wholly-owned businesses unchanged at £6.7 million this reduction was entirely attributable to the reduction in the Group's share of the OMT joint venture's profits down from £5.2 million last year to £1.6 million.

The results summarised by individual businesses are set out in Note 2 on the Financial Statements. Despite the fall in turnover of the wholly-owned businesses, an improvement of 1.3% in gross margins and net operating expenses £5.5 million lower left operating profit unchanged.

Discontinued operations relate to the analytical On-line Process Systems business based in North Andover, USA sold in October 2002 for deferred consideration of £0.3 million. The loss on disposal was £1.6 million, which related primarily to the write-off of goodwill.

Accounting Policies

The policies applied in preparing the Financial Statements are set out in Note 1 on the Financial Statements. The main areas of judgement in applying the policies relate to the estimation of the cost to complete on long term contracts, which represent less than 2% of annual turnover, and to the assessment of the risk of stock obsolescence. The appropriateness of these policies is reviewed regularly.

Turnover

Sales of the wholly-owned businesses to overseas customers of £164 million, including sales by overseas businesses of £111 million, represented 88% of total Group turnover. UK exports of £94 million produced a net benefit to the UK balance of payments of £81 million, after deducting imports of £13 million. Turnover by region is shown in the chart opposite.

Half year results

As shown in the table below, the operating profit in the second half of the year produced the highest operating profit on the lowest turnover for any of the last four halves reflecting the cost reduction programmes during the year.

The second half of 2003 showed recovery in Analytical, steady reduction in the losses at Medical and stable profits at Superconductivity despite the higher than expected launch costs of the flagship 'Discovery' magnet.

Exceptional items

Exceptional items included redundancy costs of £1.7 million as each of the UK businesses reduced their cost base during the year. In addition Medical incurred termination costs when ceasing to distribute a loss making sleep analysis product.

Joint venture

The Group's 49% shareholding in Oxford Magnet Technology Limited (OMT) has been accounted for as a joint venture. After adjustment for trading between OMT and the Group, as shown in Note 5 on the Financial Statements, the Group's share of OMT's turnover amounted to £44.1 million, down £2.5 million on the previous year.

The Group's operating profit, net interest and profit before tax all include the Group's share of the joint venture's result for the year under each heading. In the Group Balance Sheet, the Group's share of the gross assets and liabilities are shown under the heading of Investments.

The cash dividend received from OMT in December 2002 of £2.5 million is shown separately in the Group Cash Flow Statement. The current policy of the Board of OMT is to recommend 100% distribution of annual earnings to its two shareholders at the end of December each year.

As discussed in the Chairman's Statement, the future of the joint venture after September 2004 is under review.

Interest

Total net interest payable was £1.5 million, unchanged from last year. The share of the joint venture's interest charge was unchanged from the previous year but the cost of maintaining a Group dollar sterling swap arrangement offset the benefit from declining Group borrowings as the Group's cashflow improved during the year. Following payment of a dividend by the US subsidiaries towards the end of the year this swap was substantially reduced and is unlikely to become significant again in future. Ignoring exceptional items, net interest payable was covered 5.6 times by the total operating profit of the continuing operations.

Continuing operations	2002 First half £ million	2002 Second half £ million	**2003 First half £ million**	**2003 Second half £ million**
Turnover				
Analytical	43.1	38.1	**32.7**	**28.9**
Medical	19.2	20.2	**17.2**	**19.1**
Superconductivity	41.3	50.0	**44.7**	**44.0**
	103.6	108.3	**94.6**	**92.0**
Operating profit/(loss)				
Analytical	5.3	2.6	**0.8**	**2.0**
Medical	(0.8)	(0.7)	**(0.7)**	**(0.1)**
Superconductivity	(0.9)	1.2	**2.4**	**2.3**
	3.6	3.1	**2.5**	**4.2**

Tax
The underlying tax rate on continuing profits before exceptional items was 35% (2002 26%). The key factors influencing the rate of tax are higher tax rates in overseas jurisdictions such as USA, Germany and Japan, and the use of tax losses. Unlike last year the Group has not been able to use some past UK and overseas tax losses, and in addition has been unable to relieve all the losses of individual companies arising in the current year.

Employees
The number of employees of the wholly-owned businesses at 31 March 2003 was 1,560 compared with 1,798 at 31 March 2002, a reduction of 13%.

Exchange rates
The principal exchange rates used to convert foreign currencies are set out in Note 36 on the Financial Statements. Our overall policy of selling forward net currency receivables provides short term predictability but not long term protection from sterling movements against other currencies.

Balance sheet
In accordance with FRS 10, negative goodwill arising from the purchase of the Vickers neurology business in 1997 has now been fully amortised. Goodwill arising from the purchase of both the Austin Scientific Company and the business of CMI International Corporation is being amortised over 8 years. An analysis of tangible fixed assets is shown in Note 15 on the Financial Statements. The decrease in net book value of fixed assets of £3.2 million reflected the low level of capital expenditure in the year.

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

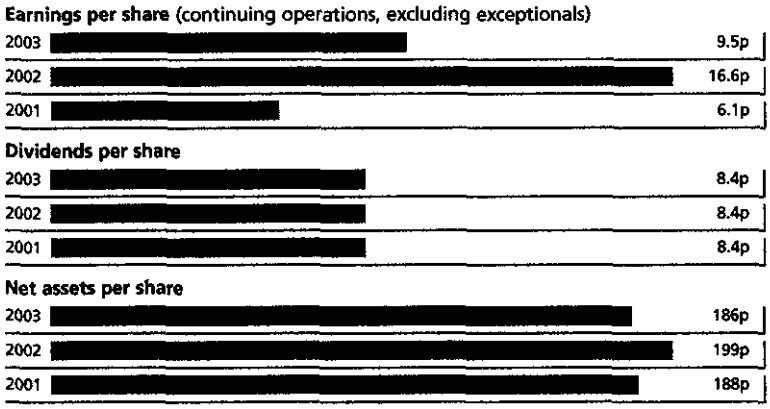
Net working capital, excluding net cash or borrowings, taxation and accrued dividends decreased by £7.5 million to £43.0 million. Overall the net working capital to sales ratio reduced from 23.6% to 22.9%. Year end stocks reduced by £12.0 million. There was also a significant improvement in debtors, with the number of days debt outstanding falling to 66 days from 70 days.

The Group ended the year with net cash of £3.3 million, made up of cash and short term deposits of £6.4 million offset by bank loans and overdrafts of £3.1 million.

Contingent liability
Since the year end one of the new Analytical products has become subject to proposed new testing requirements in one country for a specific application. The equipment of all suppliers for this purpose will need to be tested over the next few months. In the event that these tests are unsuccessful this could result in additional costs which are unlikely to exceed £1.2 million.

Pension schemes
The Company continues to account for pensions in accordance with SSAP 24. However, following stock market and interest rate falls during the year, the combined deficit of the three defined benefit pension plans under the FRS 17 accounting standard has increased from £5 million to £23 million after deducting the related deferred tax asset. The principal (UK) scheme was closed to new members in 2001 and contributions from both the Company and employees will be reviewed as soon as the results of the triennial actuarial valuation, as at 31 March 2003, are available.

Cashflow
The Group began the year with net borrowings of £4.0 million and ended the year with net cash of £3.3 million, an inflow of £7.3 million. There was no significant cashflow from acquisitions or disposals in the year.



Financing
At the year end the Group's bank facilities were more than sufficient for its short term needs. In addition to the multi-currency overdraft and short term borrowing facilities of £30 million (or the foreign currency equivalent) available to the Group at 31 March 2003, the Group had contractually committed unsecured facilities of £15 million at the financial year end. At 31 March 2003 none of the committed facilities and £3.1 million of the uncommitted facilities were in use. There is no known restriction on the Group's ability to transfer funds within the organisation.

The Group has contracted by guarantee to secure 49% of the external borrowings of the Oxford Magnet Technology joint venture up to a maximum of £7.6 million. At the year end the joint venture had total net borrowings of £23.8 million.

There was no change in the capital structure of the Company during the year. 24,734 new ordinary shares were issued in the year under the Company's savings related share option scheme representing 0.05% of the total issued share capital.

Treasury management
The Group Treasury function provides a service to all Group businesses. Group Treasury is responsible for sourcing and structuring all borrowing requirements. It also manages the location and investment of surplus funds which, when appropriate, are invested predominantly in short term deposits with major financial institutions meeting the credit criteria approved by the Board. At the present time the Group has decided not to enter into any arrangements to hedge against future movements in interest rates.

However, given the high level of net exports, the Group faces currency exposures on trading transactions undertaken by its UK subsidiaries in foreign currencies (the transaction exposure). To eliminate uncertainty, the Group has a policy of selling forward known and forecast net foreign currency receivables for up to 12 months ahead. Note 33 on the Financial Statements shows the value at 31 March 2003 of contracts for forward sale of the major currencies in which the Group trades.

The Group does not hedge its currency exposure on the translation of profits earned in overseas subsidiaries (the profit translation exposure).

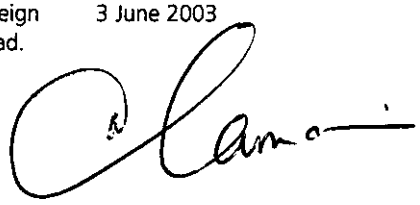
Shareholders' return
Earnings and dividends
The profit on ordinary activities before tax of £2.4 million included a profit of £6.8 million from continuing operations, exceptional losses of £2.1 million and losses on discontinued businesses of £2.3 million. After a tax charge of £1.2 million the net profit for the financial year was £1.2 million.

The Group's proposed final dividend of 6.0 pence per share (2002 6.0 pence), payable on 3 October 2003, makes a total dividend for the year of 8.4 pence and remains the same as last year. Ignoring exceptional items and discontinued businesses the total dividend for the year was covered 1.1 times by earnings.

Share price
The closing mid market price of the ordinary shares at the end of the financial year was £1.20, compared with £2.21 at the beginning of the year. The highest and lowest prices recorded in the financial year were £2.40 and £1.10 respectively. At the close of trading on 3 June 2003 the share price was £1.725.

Shareholders' funds
Shareholders' funds at the year end were £89.2 million, or £1.86 per share. There were no net borrowings. After provision for the proposed final dividend, distributable reserves of the Company were £96.8 million.

Martin Lamaison Financial Director
3 June 2003



Directors
The following Directors served throughout the year except as noted:
N J Keen FCA Chairman
M Brady FREng FRS Deputy Chairman
A J Mackintosh Chief Executive
M Lamaison FCA Financial Director and Company Secretary
P J Hill
P W L Morgan
B J Taylor (from 13 November 2002)

Chairman
Nigel Keen, 56, Non-Executive Director, joined the Board in 1999. He is Chairman of The Laird Group PLC, Axis-Shield plc and Deltex Medical Group plc.

Deputy Chairman
Michael Brady, 58, Senior Independent Director, joined the Board in 1995 and is BP Professor of Information Engineering at Oxford University. He is a Director of AEA Technology plc, Guidance and Control Systems Limited, ISIS Innovation Limited and Mirada Solutions Limited.

Executive Directors
Andrew Mackintosh, 47, was appointed Chief Executive in February 1998. He joined Oxford Instruments plc in 1984 after an early career with Courtaulds, EMI and in university research, including a year spent in Japan. He has a BSc in Chemical Physics and PhD in Solid State Physics.

Martin Lamaison, 59, joined Oxford Instruments plc in 1985 as Group Financial Director. Previously he was with Glaxo Group plc and BOC Limited. He has a BA in Industrial Economics.

Board Committees
Audit: Peter Morgan, Chairman; Michael Brady; Peter Hill; Nigel Keen; Bernard Taylor

Remuneration: Nigel Keen, Chairman; Michael Brady; Peter Hill; Peter Morgan

Nomination: Nigel Keen, Chairman; Michael Brady; Peter Hill; Peter Morgan; Bernard Taylor

Honorary President
Sir Martin Wood OBE FRS Hon FREng DL

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

Non-Executive Directors

Peter Hill, 50, Independent Non-Executive Director, joined the Board in 1999 and is Chief Executive of The Laird Group PLC. He is the former Head of Strategic Planning for BTR plc and was subsequently Director of Merger Integration at Invensys plc and then President of Invensys Air Systems. He was an Executive Director of Costain Group plc from 1992 to 1997.

Peter Morgan, 67, Independent Non-Executive Director, joined the Board in 1999. He is Chairman of both Baltimore Technologies plc and Technetix plc as well as a Director of Hyder plc. He is a member of the Council of Lloyd's and a Director of the Association of Lloyd's Members. He is a former Chairman of SWALEC plc, NPI, Pace Micro Technology plc and KSCL Limited; a former Executive Director of IBM (UK) plc and IBM Europe and a former Director General of the Institute of Directors. He is also Master of the Worshipful Company of Information Technologists for 2002/2003

Bernard Taylor, 46, Independent Non-Executive Director, joined the Board in 2002 and is Vice Chairman of JP Morgan plc. He is Chairman of ISIS Innovation Limited, and a Non-Executive Director of TI Automotive Limited. He is also a fellow of the Royal Society of Chemistry.

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The Directors present their Report and the Financial Statements of Oxford Instruments plc for the year ended 31 March 2003.

Principal activity and business reviews
The Company is the ultimate holding company of a group of subsidiary undertakings ('the Group') engaged in the research, development, manufacture and sale of advanced instrumentation. The business and likely future prospects are reviewed in the Chairman's Statement on pages 3 to 5, the Operating Review on pages 7 to 9 and the Financial Review on pages 11 to 13.

Acquisitions and disposals
There were no acquisitions in the year ended 31 March 2003. In the prior year ended 31 March 2002, the Group acquired the business and assets of CMI International Corporation based in Chicago, USA.

On 10 October 2002 the Group sold its On-line Process Systems business, based in North Andover, USA for a deferred consideration of £0.3m.

Results and dividends
The results for the year are shown in the Group Profit and Loss Account on pages 30 and 31. The Directors recommend a final dividend of 6.0p per ordinary share, which together with the interim dividend of 2.4p per ordinary share paid on 24 March 2003 makes a total of 8.4p per ordinary share for the year (2002 8.4p). Subject to shareholder approval, the final dividend will be paid on 3 October 2003 to shareholders registered at close of business on 5 September 2003.

Directors
Profiles of all the Directors, including the Non-Executive Directors, appear on pages 14 and 15. All the Directors served on the Board for the whole year under review unless indicated otherwise.

Bernard Taylor, who has been appointed since the last Annual General Meeting, Martin Lamaison and Peter Morgan who retire by rotation, offer themselves for re-election. Martin Lamaison has a service contract with the Company subject to two years' notice of termination. Bernard Taylor and Peter Morgan have letters of appointment for three years, terminating on 12 November 2004 and 13 December 2005 respectively. Peter Hill's and Peter Morgan's letters of appointment were renewed with effect from 14 December 2002 for a further three years.

Directors' interests
Save as disclosed on page 27 the Directors had no beneficial interest in the Company's issued share capital on the given dates.

Martin Lamaison as a Trustee of the Company's Share Participation Scheme had no non-beneficial interest in any ordinary shares at 31 March 2003 (2002 54,913). There were no changes in the Directors' holdings between the year end and 3 June 2003.

No Director was beneficially interested in the shares of any subsidiary company at any time during the year.

Share capital
During the year 24,734 new shares were issued (2002 66,884) under the Company's Savings Related Share Option Scheme. Details are set out in Note 27 on the Financial Statements.

Substantial shareholdings
The following are beneficial interests of 3% or more and any non-material interests of 10% or more, of which the Directors have been notified, of the Company's issued ordinary share capital, the only class of voting capital, at 3 June 2003:

	Shares 000	% of total
Aberforth Partners	10,706	22.3
HBOS plc	4,800	10.0
Sir Martin and Lady Audrey Wood	3,644	7.6
Britel Fund Trustees Limited (forms part of Aberforth Partners holding)	2,914	6.1
Railways Pension Trustee Company Limited (of which 4.9% forms part of Hermes Pensions Management holding)	2,946	6.1
Hermes Pensions Management	2,859	6.0
Co-operative Insurance Society Limited (forms part of Aberforth Partners holding)	2,413	5.0
Post Office Pension Trustees Limited* (of which 4.6% forms part of Hermes Pensions Management holding)	2,401	5.0
Nottinghamshire County Council (forms part of Hermes Pensions Management holding)	2,354	4.9
Fidelity Investments	1,718	3.6
UBS Global Asset Management	1,647	3.4
Legal & General	1,487	3.1

* PossFund Custodian Trustee Limited, as custodian, is also considered to have an interest in these shares.

Employee reward, involvement and development
In a business where technology and innovation are key, the skills and contributions of our employees are critical to success. Recognising this, we continue to drive for a performance culture that values excellence highly, and addresses underperformance. Our regular performance and development reviews create a firm link between the business goals, an employee's contribution and their own compensation.

Payment of suppliers
The Group does not follow a standard payment practice but agrees terms and conditions for its business transactions with each of its suppliers. Payment is then made to these terms, subject to the terms and conditions being met by the supplier.

Trade creditors of the Company and the Group at 31 March 2003 were equivalent to 35 days and 45 days purchases respectively, based on the average daily amount invoiced by suppliers to the Company and Group during the year.

Annual General Meeting
The Notice of the Annual General Meeting to be held on 29 July 2003 is set out on pages 57 to 59 together with explanatory notes relating to the resolutions.

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

The Directors believe that the proposed resolutions are in the best interests of the Company and its shareholders, and accordingly unanimously recommend shareholders to vote in favour of resolutions numbered 1 to 10 inclusive to be proposed at the Annual General Meeting, as they propose to do in respect of their beneficial shareholdings.

By Order of the Board
Martin Lamaison Company Secretary
3 June 2003

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

Health and safety policy

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

All businesses within the Group recognise the importance of keeping all employees updated on health and safety issues. All businesses issue and bring to the notice of their employees a written statement of their policy relating to health and safety at work. In addition employees are kept informed of current issues through staff notice boards and bulletins. Some new initiatives were introduced during the year, these included a "Question of Safety", a scheme introduced initially in the USA that encourages employees to submit observations or concerns relating to improvements that can be made in work conditions and practices. In order to maintain high standards throughout the Group training courses are run focussing in particular on manual handling and fork lift truck driving. Risk assessments are conducted at employees' workstations to ensure staff are working in a comfortable and safe environment. Action is taken when required.

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

The Group Health and Safety Committee is establishing measures that will enable health and safety trends to be monitored across the Group on a consistent basis.

Environmental policy

The Board is responsible overall for environmental policy and procedures. Responsibility for implementing and maintaining effective environmental management practices is assigned to the operational management teams. The Directors believe that the majority of the manufacturing processes have minimal environmental impact, but where any potential risks exist these are subject to tight controls. The Group aims to meet the requirements of all applicable environmental laws and regulations, and seeks to reduce waste and environmental impact by the adoption of appropriate practices in its operations.

The Group operates a regular system of review through the Group's internal control process. All businesses report on environmental issues and compliance with local legislation. Action is taken to correct any unsatisfactory issues disclosed by these reviews.

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

Social and ethical policy

Employment

In a business where technology and innovation are key, the skills and contributions of our employees are critical to our success. Our developing performance culture values excellence. This is underpinned by our corporate values, which are incorporated into the way we conduct our business globally and the performance and behaviour of our employees.

Ability and contribution are the determining factors in the selection, training, career development and promotion of all employees. The Group is committed to managing actively individual and team performance and developing and valuing core skills. Ensuring we have the right skills mix means that we are able to fulfil our employees' aspirations and grow our business through producing innovative products that meet or exceed our customers' expectations.

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

The recruitment and retention of our employees is a key strategic aim of the Group and therefore the Group operates a number of family friendly policies to assist our employees in establishing an appropriate work/life balance. As such, we have introduced flexible working practices where it is appropriate for the business. All our manufacturing businesses in the UK offer flexible start and leave times around a core work period and we have a number of part-time employees at all levels.

To assist our businesses in recruiting the future talent that is critical for a high technology group our web site now includes a careers' section. Job vacancies are advertised on this site and also on notice boards for employees.

The Group's policy is to ensure that it complies in all countries where it operates with all relevant legislation and recognised codes of practice relating to employment rights, health and safety and equal opportunities.

Ethics

An open culture is fostered in which everyone's views and contributions are encouraged and respected. Our aim is to ensure there are equal opportunities for all employees with no discrimination on account of race, age, gender, disability or religious beliefs. If any employees become disabled every effort is made to retain them in their current role or a suitable alternative role.

We have introduced a confidential employee reporting service through which our employees can raise any concerns they may have with any aspect of our business or behaviour.

It is the Group's policy to minimise compulsory redundancy through redeployment and re-training of employees where possible.

Community involvement

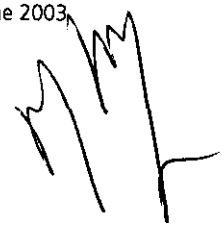
For many years businesses in the Oxford Instruments group have contributed and supported local charities and community activities. Total donations made by the Group during the year amounting to £29,000 (2002 £26,000) were made to a range of community organisations. It is the Group's policy to prohibit donations to any political party or similar organisation and therefore no donations to political parties were made.

In addition our employees are encouraged to contribute to local charities using the Give-As-You-Earn scheme and the company makes an additional donation to their chosen charity. The Group also regularly provides work placement experience for students and in the year ending 31 March 2003 spent £43,000 providing student sponsorship in the UK. The Group encourages its UK employees to participate in the Business in the Community scheme.

Communication

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

Nigel Keen Chairman
3 June 2003



Corporate Governance

The Board recognises the importance of good corporate governance and has, over the years, ensured that appropriate corporate governance procedures are in place within the Company and are kept under regular review. During the year the Higgs and Smith reports covering Non-Executive Directors and the functioning of Audit Committees respectively were published. A full review has been undertaken of both reports to highlight the current areas of compliance and non-compliance. Further consideration is now being given as to the changes to policies and procedures that are most appropriate.

Compliance

During the period under review, the Company has applied the principles set out in the Combined Code on corporate governance and has complied throughout the year with each of the provisions set out in Section 1 of the Combined Code, except where it has been explained in the Remuneration Report on pages 25 and 26 in respect of provisions B.1.6 and B.1.7. These provisions relate to the inclusion of cash bonuses for pension purposes and the length of notice in service contracts.

Principles of corporate governance

Board of Directors

The Board is responsible for the direction and overall performance of the Group with particular emphasis on policy matters and strategic issues. A timetable for Board meetings is agreed annually. The Board meets formally ten times a year and additionally as necessary. There is an agenda of matters specifically reserved for discussion by the Board. The Board is provided with appropriate information relating to matters for discussion prior to each meeting and seeks further information as necessary.

The Board comprises the Chairman and Deputy Chairman (both Non-Executive Directors), two Executive Directors and three further Non-Executive Directors. All the Non-Executive Directors are considered to bring independent judgement to bear on issues of strategy, performance and resources, including key appointments and standards of conduct.

The Non-Executive Directors are appointed for an initial term of three years, renewable by mutual consent. All Directors are required to seek re-election at the first Annual General Meeting following appointment, and subsequently at intervals of no more than three years.

The Company's Articles authorise any Director to take independent professional advice if necessary at the Company's expense and have access to the advice and services of the Company Secretary, or if appropriate, the Assistant Company Secretary. Any Director becoming a Director of a listed company for the first time is given the choice of external or internal training. A programme of familiarisation with the Company's businesses is also arranged.

Board committees

Membership of Board Committees is given on page 15.

The Audit Committee, chaired by Peter Morgan, is responsible for the review of the accounts and for ensuring that any matters raised by the external or internal auditors are given proper consideration in accordance with its written terms of reference. The external auditors attend all the meetings. The Committee is also responsible for keeping under review the scope and results of the external audit and its cost effectiveness and the independence and objectivity of the external auditors. At each meeting the Executive Directors, who attend by invitation, are asked to leave so that the external auditors may raise, if they wish, any matters relating to the Executive Directors with the Committee.

All the Audit Committee members have significant financial experience due to the senior positions they hold in other listed companies. The Audit Committee met twice in the year ended 31 March 2003.

The Committee's main responsibilities are set out in the Audit Committee Terms of Reference and include:

- reviewing the interim and annual financial statements before submission to the Board;
- making recommendations to the Board regarding the external auditors and their terms of appointment;
- co-ordinating the activities of external and internal auditors and reviewing the major external and internal audit findings;
- keeping under review compliance with accounting standards and any changes in accounting policies and practices; and
- monitoring the adequacy and effectiveness of the internal financial controls and compliance procedures.

As part of its remit, the Audit Committee also keeps under review the nature and extent of non-audit services provided to the Group by the external auditors. The extent of these non-audit services in the year has been minimal. The non-audit services were not put out to tender as the tender process was considered out of proportion to the nature and cost of the services to be provided. Details of the audit fees, together with fees for non-audit services for the year, are set out in Note 7 on the Financial Statements.

The Remuneration Committee, chaired by Nigel Keen, 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. The Directors' Remuneration Report is set out on pages 23 to 28.

The Nomination Committee, chaired by Nigel Keen, is responsible for recommending to the Board all Board appointments and for ensuring that the Board has an appropriate balance of expertise and ability among the Non-Executive Directors. It also recommends to the Board at the end of each three year term whether the Non-Executive Director's appointment should be renewed for a further three years.

In addition there is a New Ventures Board. This Board is convened by Andrew Mackintosh and Michael Brady to assess opportunities for significant growth from innovative ideas that do not fall within the remit of the Group's existing businesses. Attendance is determined by the matters to be addressed at each meeting and may involve experts from both inside and outside the Group.

Shareholder relations

All shareholders are invited to attend and participate in the Annual General Meeting (AGM). At the 2002 AGM the chairmen of the Audit, Remuneration and Nomination Committees were available to answer questions. The results of proxy votes were declared at the 2002 AGM after each resolution had been dealt with on a show of hands and this practice will be continued at future General Meetings.

All major announcements issued through a Regulatory Information Service are now made available promptly on the Company's website (www.oxford-instruments.com).

Internal control

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

There is an ongoing process for identifying, evaluating and managing any significant risks faced by the Group. This process has been in place during the year and up to the date of approval of the annual report and accounts. It is regularly reviewed by the Board and accords with the Turnbull guidance.

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

It is the Group's aim to maintain firm financial disciplines with the object of providing reasonable assurance of the safeguarding of assets against unauthorised use or disposition, the maintenance of proper accounting records and the reliability of financial information within the business for publication.

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

- a formal schedule of matters is reserved to the Board for decision with appropriate delegation of authority throughout the management structure;

- the Group's management structure is based on the identification of separate businesses for each of the Group's activities; the heads of these businesses together with the Chief Executive and the Group Financial Director form the Group's Management Top Team; there are clearly defined lines of management responsibilities at all levels up to and including the Group Board; the Group's accounting and reporting functions reflect this organisation;
- financial executives within Group businesses report to their own operational head but there is also a well established and acknowledged functional reporting relationship through to the Group Financial Director;
- the Board reviews strategic issues and options formally once a year during the annual strategic planning process and during the year as appropriate;
- regular review of the operational risks within each of the businesses is undertaken by the senior management of each business who are responsible for confirming that they are satisfied that there are effective risk management compliance and operational controls in place; regular reports are made to the Chief Executive providing details of any significant risks and the actions being taken to mitigate such risks; details of significant risks identified and the mitigating actions in place are reported to the Board;
- in addition, the Board considers risks to the Group's strategic objectives which are not addressed within the Group's businesses and develops appropriate actions to manage and mitigate these risks;
- annual budgets are prepared for each of the Group's businesses which include monthly figures for turnover, profit, capital expenditure, cash flow and borrowings; the budgets are reviewed through the Group management structure and result in a Group financial budget which is considered and approved by the Board;
- the businesses prepare monthly management accounts which compare the actual operating result with both the budget and the prior year; the businesses also prepare rolling reforecasts for orders, turnover, operating profit and cash covering the next six months in detail and from time to time a further six months in summary; both are reviewed by the Board monthly;
- the Board approves all acquisition and divestment proposals, and there are established procedures for the planning, approval and monitoring of capital expenditure;
- for all major investments the performance of the first 12 months against the original proposal is reviewed by the Board;
- the Board maintains an internal control framework defining for each control area, the reporting mechanics and the responsibility;
- each Group site, except for representative sales offices, submits a self assessment internal control questionnaire every six months;
- internal audit is carried out through a system of regular reviews of the internal controls at each site by accountants from other parts of the Group and in Japan, due to language issues, by the local external auditors;
- work performed is based on a standardised Group format but involves random testing, together with a review of the internal control questionnaire;
- where required, action plans are drawn up by the businesses in conjunction with Group to remedy any significant control weaknesses that are identified from completion of the internal control questionnaire or as a result of the internal audit; checks on the progress of the action items arising are then made; the results of audit reviews are reported to local management, Group management and the Audit Committee;
- in addition the Board receives regular updates on treasury, tax, property, insurance and health and safety matters;
- authorisation limits are set at appropriate levels throughout the Group; compliance with these limits is monitored by the Group management structure and internal audit; and
- all requests to quote for substantial fixed price contracts are reviewed by a multi-disciplinary team to assess both technical and financial risk and to try to ensure an appropriate balance between risk and reward; however, no procedure can guarantee the avoidance of losses on fixed price contracts of a technical nature.

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

Remuneration Committee

The Remuneration Committee consists of Nigel Keen (Chairman), Professor Michael Brady, Peter Hill and Peter Morgan, all Non-Executive Directors.

The principal function of the Committee is to define the Company's policy on the remuneration, benefits and terms of employment for each Executive Director. The Board as a whole is responsible for fixing the remuneration of the Non-Executive Directors, including the Chairman.

The Committee also reviews the granting of options and general increases in salaries and bonus arrangements for staff and the Executive Directors. Over the past year the Committee appointed Watson Wyatt LLP and New Bridge Street Consultants to provide independent external professional advice on Executive Directors' remuneration and option schemes respectively. The Committee also consults the Chief Executive about the remuneration of the Financial Director. In addition the Chairman maintains contact with principal shareholders regarding remuneration policy as appropriate.

Executive Directors' remuneration policy

The Company has an incentive-driven Executive Director remuneration policy that seeks to promote the alignment of interests of directors and shareholders and reflects the performance of each director. A significant proportion of total potential rewards is provided through performance-based schemes. Overall the remuneration package aims to be appropriate to attract and retain high calibre executives.

Service contracts

Company policy is to enter into service contracts with Executive Directors which have a notice period of one year. The Remuneration Committee's policy on early termination is to provide compensation which reflects the Company's contracted obligations, whilst recognising the principle of mitigation of damages.

Salary

Base salaries and benefits of the Executive Directors are reviewed annually by the Remuneration Committee. Base salaries are determined with reference to an appropriate comparator group of companies which is reviewed annually. Consideration is also given to the Director's experience, performance and responsibilities.

Annual bonus

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

Share incentive schemes

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

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

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

ESO schemes (1985, 1995 and 2001)

These shareholder and Inland Revenue approved schemes grant options over new shares to be issued at the time of exercise (and in the case of the 1995 and 2001 schemes also over existing shares). Options granted to an individual in excess of £30,000 are classified as unapproved options.

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

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

Performance conditions

1985 ESO

None – in line with general market practice at the time of establishing the scheme.

1995 ESO

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

2001 ESO

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

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

When the 2001 ESO scheme was established the Remuneration Committee set the initial conditions for the full vesting of options at 30% per year growth in EPS and share price. This was considered consistent with the recovery phase of the business. It was intended that over time the performance conditions would revert to a lower target, appropriate to a more stable business. For financial years after 2003/2004 the expectation was that the target for full exercise of options would reduce from 30% per year growth to around 15% per year growth.

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

EPS/TSR performance	Proportion of relevant half of options exercisable
Average of 30% or more p.a.	50%
Average of 15% – 29.99% p.a.	Pro-rata between 12.25% and 50%
Average of 15% pa	12.25%
Less than an average of 15% p.a.	Nil

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

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

The performance conditions for options to be granted in 2003 have been set by the Remuneration Committee as set out below:

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

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

SELTIS

The SELTIS scheme is similar to ESO, with the exception that options are granted at nil option exercise price. Performance conditions are the same as the 2001 ESO scheme with the objective of encouraging shareholder value creation and improved financial performance.

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

Performance conditions

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

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

SELTIS options granted since the establishment of the 2001 ESO scheme

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

Individual options

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

Performance conditions

Individual options granted in March 1998

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

Individual options granted in December 2001

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

SAYE options

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

Pensions

Oxford Instruments Pension Scheme

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

During the year ended 31 March 2003 the Company contributed to the scheme at a rate of 11.5% of pensionable salary. Employees can chose to contribute at rates of 4% or 7.5% of pensionable salary, with the higher rate earning benefits at the faster rate of 2% per year (1/50ths) of service instead of 1.67% (1/60ths).

All benefits may be taken at age 60. However the normal retirement age for all UK employees is 65 and continued accrual of service in the pension schemes can continue until 65. Early retirement is possible on a reduced pension from age 50 with the consent of the Company. Pensions in payment are guaranteed to increase by a level of inflation up to a maximum of 5% per year, subject to any applicable statutory requirements.

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

Oxford Instruments Stakeholder Plan

Since April 2001 the Company's defined benefit scheme has been closed to new members, and all new employees, including Executive Directors, are offered membership of the Oxford Instruments Stakeholder Plan, a defined contribution scheme. Under this scheme only basic salary is pensionable.

During the year ended 31 March 2003 the Company paid contributions to the scheme on a variable scale up to a maximum of 4% for members who contributed at a rate of at least 2%. Employees make contributions at a rate of their choice.

Oxford Instruments 1998 Executive Pension Scheme

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

Outside appointments

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

Executive Directors' remuneration for the year

The Company had two Executive Directors during the year, Andrew Mackintosh, Chief Executive and Martin Lamaison, Group Financial Director.

Service contracts

The service contracts in force for the two Executive Directors do not comply with the Remuneration Committee's current policy on Executive Directors' Service Contracts. The Company entered into a service contract with Andrew Mackintosh on 1 April 1996 and with Martin Lamaison on 31 December 1985. These contracts expire at age 65 and have a two years' notice period. This reflected the policy for Executive Directors' service contracts in place at the time they commenced.

Salary and annual bonus

Executive Directors' remuneration for the year was as follows:

	Salary £000	Benefits* £000	Performance related remuneration £000	**2003 £000**	Total remuneration 2002 £000
Andrew Mackintosh	225	13	45	**283**	238
Martin Lamaison	160	13	26	**199**	188
Total	385	26	71	**482**	426

* Benefits include company car and fuel allowances and participation in the Company's private health insurance scheme.

The Executive Directors' bonus scheme for the year ended 31 March 2003 set performance targets which would pay bonuses for on target performance at the rate of 50% of base salary for Andrew Mackintosh and 35% of base salary for Martin Lamaison. Performance in excess of the targeted economic added value would attract incremental payments. The actual performance achieved provided Andrew Mackintosh with a bonus equal to 20% of salary and Martin Lamaison 16.5% of salary.

Share incentive schemes

The Executive Directors have outstanding options under the 1985, 1995 and 2001 ESO schemes, the SELTIS scheme, Individual options and SAYE (1985 and 1995) as follows:

	Scheme	**2003**	Number of options during the year: Granted	Exercised	Lapsed	2002	Exercise price	Date for earliest exercise	Date for latest exercise
Andrew Mackintosh	SAYE	**280**	280	–	–	–	£1.35	01/02/06	31/07/06
	SAYE	**654**	–	–	–	654	£1.48	01/02/04	31/07/04
	SAYE	**1,201**	–	–	–	1,201	£1.87	01/02/03	31/07/03
	SAYE	**780**	–	–	–	780	£1.73	01/02/04	31/07/04
	SAYE	**1,809**	–	–	–	1,809	£2.86	01/02/03	31/07/03
	SAYE	**–**	–	–	(445)	445			
	2001 ESO	**148,678**	148,678	–	–	–	£2.22	15/07/05	14/07/12
	2001 ESO	**333,333**	–	–	–	333,333	£1.59	28/09/04	27/09/11
	1995 ESO	**25,000**	–	–	–	25,000	£4.13	28/11/98	27/11/05
	1985 ESO	**5,000**	–	–	–	5,000	£2.94	09/12/96	08/12/03
	SELTIS	**49,751**	49,751	–	–	–	Nil	17/07/05	16/07/09
	SELTIS	**49,383**	–	–	–	49,383	Nil	20/12/04	19/12/08
	SELTIS	**44,000**	–	–	–	44,000	Nil	20/12/03	20/12/07
	SELTIS	**44,000**	–	–	–	44,000	Nil	14/07/02	13/07/06
	SELTIS	**25,000**	–	–	–	25,000	Nil	14/07/01	13/07/05
	SELTIS	**–**	–	–	(13,500)*	13,500			
	Individual	**165,500**	–	–	–	165,500	Nil	20/12/04	20/12/08
	Individual	**151,613**	–	–	–	151,613	£2.05	20/12/04	20/12/08
	Individual	**100,000**	–	–	–	100,000	£2.95	06/03/03	06/03/08

	Scheme	2003	Number of options during the year Granted	Exercised	Lapsed	2002	Exercise price	Date for earliest exercise	Date for latest exercise
Martin Lamaison	SAYE	**280**	280	–	–	–	£1.35	01/02/06	31/07/06
	SAYE	**568**	–	–	–	568	£1.87	01/02/05	31/07/05
	SAYE	**130**	–	–	–	130	£1.48	01/02/04	31/07/04
	SAYE	**1,716**	–	–	–	1,716	£1.77	01/02/05	31/07/05
	SAYE	**–**	–	–	(3,565)	3,565			
	2001 ESO	**105,276**	105,276	–	–	–	£2.22	15/07/05	14/07/12
	2001 ESO	**256,250**	–	–	–	256,250	£1.59	28/09/04	27/09/11
	SELTIS	**33,000**	–	–	–	33,000	Nil	21/12/03	20/12/07
	SELTIS	**33,000**	–	–	–	33,000	Nil	14/07/02	13/07/06
	SELTIS	**20,000**	–	–	–	20,000	Nil	14/07/01	13/07/05
	SELTIS	**–**	–	–	(12,000)*	12,000			
	Individual	**50,000**	–	–	–	50,000	£2.95	06/03/03	06/03/08

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

There were no gains realised by Executive Directors on exercise of share options during the year to 31 March 2003 (2002 £nil). During the year 25,000 shares in respect of options granted to Andrew Mackintosh in 1995 under the 1995 ESO scheme vested and became technically capable of exercise, although currently the option exercise price is above current market price. In addition 44,000 and 33,000 shares in respect of options granted to Andrew Mackintosh and Martin Lamaison respectively in 1999 under SELTIS vested during the year.

The options granted under SELTIS in the year will not dilute shareholders holdings and, save for the interest cost on the loan of £112,000 provided to the Employee Benefit Trust for the purchase of the shares granted under SELTIS, will not involve any additional cost to shareholders. The amount of the loan is being written off over three years, the vesting period of the options.

Pensions

Both Executive Directors are members of the Oxford Instruments Pension Scheme and the Oxford Instruments 1998 Executive Pension Scheme. Variable earnings for the Executive Directors are cash bonuses only, which are deemed an integral part of their remuneration, unless otherwise specified by the Remuneration Committee.

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

	Age as at 31 March 2003 Years	Accrued years of service Years	Member's contributions during the year £000	Additional annual pension earned during the year £000	Additional annual pension earned during the year in excess of inflation £000	Accrued annual entitlement at year end £000
Andrew Mackintosh	47	18	17	8	7	80
Martin Lamaison	59	18	13	5	4	60

	Transfer value of accrued pension 2003 £000	2002 £000	Change in transfer value over year less member contributions £000
Andrew Mackintosh	**757***	587+	153
Martin Lamaison	**1,028***	828+	187

* calculated in accordance with actuarial guidance GN11

\+ calculated under Minimum Funding Requirement basis

Company contributions to the Oxford Instruments 1998 Executive Pension Scheme during the year were £15,000 (2002 £14,000) for each of the Executive Directors.

Outside appointments

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

Non-Executive Directors' remuneration policy

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

Letters of appointment

The Non-Executive Directors have letters of appointment. These appointments are subject to review every three years and retirement by rotation at intervals of no more than three years as required by the Company's Articles of Association.

Remuneration

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

Non-Executive Directors' remuneration for the year

Letters of appointment

All Non-Executive Directors have letters of appointment. Peter Hill's and Peter Morgan's initial period of appointment was for three years commencing 14 December 1999, subject to retirement by rotation. The Board extended their terms of appointment for a further three years commencing 14 December 2002. Nigel Keen and Michael Brady have letters of appointment commencing 25 February 2002 and 1 August 2001 respectively.

During the year the Board appointed Bernard Taylor as a Non-Executive Director for an initial period of three years commencing 13 November 2002, subject to approval by shareholders at the next Annual General Meeting.

Nigel Keen is employed to act as Chairman of the Company under an arrangement between the Company and Imperialise Limited. It is his responsibility to deal with Imperialise Limited for the fees paid for his services.

Remuneration details

Non-Executive Directors' remuneration for the year was as follows:

	Remuneration 2003 £000	Remuneration 2002 £000
Nigel Keen, Chairman	**66**	60
Michael Brady	**25**	25
Peter Hill	**25**	25
Peter Morgan	**25**	25
Bernard Taylor	**9**	–
Richard Wakeling	**–**	11
Total	**150**	146

Directors' Shareholdings

The beneficial interests of the Directors in the Company's share capital, all in fully paid up shares, were:

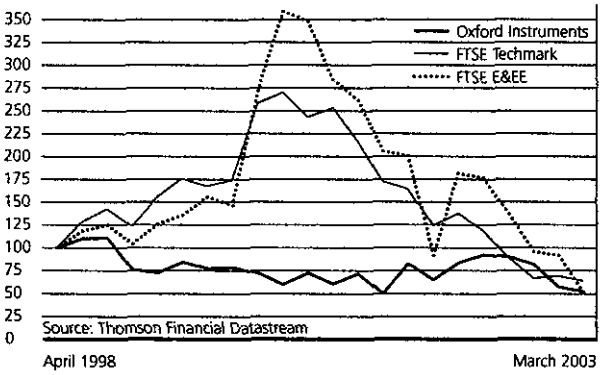
	2003 Shares	2002 Shares
Michael Brady	**2,500**	2,500
Peter Hill	**8,000**	3,000
Nigel Keen	**45,000**	35,000
Martin Lamaison	**48,621**	38,621
Andrew Mackintosh	**57,318**	47,318
Peter Morgan	**10,000**	10,000
Bernard Taylor	**190***	–

* and as at date of appointment

These interests were unchanged at 3 June 2003. The market price of Oxford Instruments plc shares on 31 March 2003 was £1.20 (2002 £2.21) and the range during the year was £1.10 to £2.40.

Performance Graph

The graph below shows Oxford Instruments TSR for the five years ended 31 March 2003, together with, for general comparison, the FTSE Electronic and Electrical Equipment and FTSE Techmark indices. These indices have been chosen as they are considered to be the most appropriate comparator groups for the Company. TSR has been calculated by reference to the relevant share price for each constituent company assuming dividends are reinvested.



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

This report was adopted by the Remuneration Committee at a meeting on 27 May 2003 and has been approved subsequently by the Board for submission to shareholders at the Annual General Meeting to be held on 29 July 2003.

Nigel Keen Chairman of the Remuneration Committee
3 June 2003

Directors' Responsibilities in Relation to the Financial Statements

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

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

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

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

We have audited the financial statements on pages 30 to 56. We have also audited the information in the Directors' Remuneration Report that is described as having been audited.

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

Respective responsibilities of directors and auditors

The Directors are responsible for preparing the Annual Report and the Directors' Remuneration Report. As described on page 28, this includes responsibility for preparing the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board, the Listing Rules of the Financial Services Authority, and by our profession's ethical guidance.

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

We review whether the statement on pages 20 to 22 reflects the Company's compliance with the seven provisions of the Combined Code specified for our review by the Listing Rules, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

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

Basis of audit opinion

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

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

Opinion

In our opinion:

- the financial statements give a true and fair view of the state of affairs of the Company and the Group as at 31 March 2003 and of the profit of the Group for the year then ended; and
- the financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985.

KPMG Audit Plc

KPMG Audit Plc
Chartered Accountants
Registered Auditor
3 June 2003

	Notes	Continuing operations Before exceptional items £000	Exceptional items £000	Sub-total £000	Discontinued operations £000	2003 £000
Turnover						
Group and share of joint venture turnover		230,722	–	230,722	671	**231,393**
Less share of joint venture turnover	5	(44,129)	–	(44,129)	–	**(44,129)**
Group turnover	2,3	186,593	–	186,593	671	**187,264**
Cost of sales	4	(126,733)	(387)	(127,120)	(546)	**(127,666)**
Gross profit/(loss)		59,860	(387)	59,473	125	**59,598**
Net operating expenses	4	(53,138)	(1,712)	(54,850)	(809)	**(55,659)**
Group operating profit/(loss) before goodwill amortisation		6,871	(2,099)	4,772	(522)	**4,250**
Goodwill amortisation		(149)	–	(149)	(162)	**(311)**
Group operating profit/(loss)		6,722	(2,099)	4,623	(684)	**3,939**
Share of operating profit of joint venture	5	1,605	–	1,605	–	**1,605**
Total operating profit/(loss) Group and share of joint venture		8,327	(2,099)	6,228	(684)	**5,544**
Loss on disposal of discontinued business	18	–	–	–	(1,569)	**(1,569)**
Profit on disposal of properties		–	–	–	–	**–**
Profit/(loss) before interest and tax	2	8,327	(2,099)	6,228	(2,253)	**3,975**
Total net interest payable	6	(1,480)	–	(1,480)	(75)	**(1,555)**
Profit/(loss) on ordinary activities before tax	7	6,847	(2,099)	4,748	(2,328)	**2,420**
Tax on profit/(loss) on ordinary activities	10	(2,384)	389	(1,995)	811	**(1,184)**
Profit/(loss) for the financial year attributable to shareholders		4,463	(1,710)	2,753	(1,517)	**1,236**
Dividends	12					**(3,935)**
Retained loss for the financial year	28					**(2,699)**

		pence	pence	pence	pence	pence
Earnings per share	13					
Basic earnings per share before goodwill amortisation		9.9	(3.7)	6.2	(3.0)	**3.2**
Basic and diluted earnings per share		9.5	(3.7)	5.8	(3.2)	**2.6**
Dividends per share	12					**8.4**

Group Profit and Loss Account *year ended 31 March 2002*

	Notes	Continuing operations Before exceptional items £000	Exceptional items £000	Sub-total £000	Discontinued operations £000	2002 £000
Turnover						
Group and share of joint venture turnover		258,485	–	258,485	1,795	260,280
Less share of joint venture turnover	5	(46,600)	–	(46,600)	–	(46,600)
Group turnover	2,3	211,885	–	211,885	1,795	213,680
Cost of sales	4	(146,542)	–	(146,542)	(1,069)	(147,611)
Gross profit		65,343	–	65,343	726	66,069
Net operating expenses	4	(58,601)	–	(58,601)	(2,149)	(60,750)
Group operating profit/(loss) before goodwill amortisation		6,731	–	6,731	(1,099)	5,632
Goodwill amortisation		11	–	11	(324)	(313)
Group operating profit/(loss)		6,742	–	6,742	(1,423)	5,319
Share of operating profit of joint venture	5	5,213	–	5,213	–	5,213
Total operating profit/(loss) Group and share of joint venture		11,955	–	11,955	(1,423)	10,532
Loss on disposal of discontinued business		–	–	–	–	–
Profit on disposal of properties	4	–	3,034	3,034	–	3,034
Profit/(loss) before interest and tax	2	11,955	3,034	14,989	(1,423)	13,566
Total net interest payable	6	(1,383)	–	(1,383)	(143)	(1,526)
Profit/(loss) on ordinary activities before tax	7	10,572	3,034	13,606	(1,566)	12,040
Tax on profit/(loss) on ordinary activities	10	(2,755)	(560)	(3,315)	623	(2,692)
Profit/(loss) for the financial year attributable to shareholders		7,817	2,474	10,291	(943)	9,348
Dividends	12					(3,931)
Retained profit for the financial year	28					5,417
		pence	pence	pence	pence	pence
Earnings per share	13					
Basic earnings per share before goodwill amortisation		16.6	5.3	21.9	(1.6)	20.3
Basic and diluted earnings per share		16.6	5.3	21.9	(2.0)	19.9
Dividends per share	12					8.4

Group Statement of Total Recognised Gains and Losses *year ended 31 March 2003*

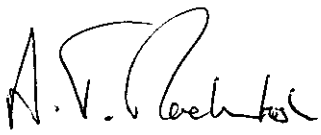
	2003 £000	2002 £000
Profit for the financial year	**1,236**	9,348
Exchange differences on foreign currency net investments of the Group	**(3,346)**	(144)
Total recognised gains and losses relating to the financial year	**(2,110)**	9,204
Prior year adjustments	**–**	2,841
Total gains and losses recognised since the last Annual Report	**(2,110)**	12,045

The joint venture has no recognised gains or losses other than the share of profit for the year of £942,000 (2002 £3,322,000).

	Notes	**Group 2003 £000**	Group 2002 £000	**Company 2003 £000**	Company 2002 £000
Fixed assets					
Goodwill	14	**2,724**	4,826	**–**	–
Negative goodwill	14	**–**	(398)	**–**	–
Intangible assets		**2,724**	4,428	**–**	–
Tangible assets	15	**35,620**	38,849	**451**	474
Investments					
Subsidiary undertakings		**–**	–	**66,630**	66,630
Share of gross assets of joint venture	5	**20,128**	19,299	**–**	–
Share of gross liabilities of joint venture	5	**(18,369)**	(16,009)	**–**	–
Net investment in joint venture		**1,759**	3,290	**1,634**	1,634
Other investments		**2,323**	2,450	**2,323**	2,450
Total investments	16	**4,082**	5,740	**70,587**	70,714
Total fixed assets		**42,426**	49,017	**71,038**	71,188
Current assets					
Stocks	20	**36,456**	48,518	**–**	–
Debtors	21	**61,071**	67,410	**50,725**	51,804
Cash at bank and in hand	22	**6,411**	4,806	**31,654**	29,809
		103,938	120,734	**82,379**	81,613
Creditors: amounts falling due within one year					
Bank loans and overdrafts	23	**(3,080)**	(7,982)	**(16,017)**	(35,470)
Other creditors	23	**(48,775)**	(59,759)	**(11,687)**	(6,777)
		(51,855)	(67,741)	**(27,704)**	(42,247)
Net current assets		**52,083**	52,993	**54,675**	39,366
Total assets less current liabilities		**94,509**	102,010	**125,713**	110,554
Creditors: amounts falling due after one year	24	**–**	(808)	**–**	–
Provisions for liabilities and charges	25	**(5,344)**	(6,036)	**–**	–
Net assets employed		**89,165**	95,166	**125,713**	110,554
Capital and reserves					
Called up share capital	27	**2,396**	2,395	**2,396**	2,395
Share premium account	28	**18,819**	18,776	**18,819**	18,776
Other reserves	28	**15,930**	15,930	**7,719**	7,719
Profit and loss account	28	**52,020**	58,065	**96,779**	81,664
Equity shareholders' funds	29	**89,165**	95,166	**125,713**	110,554

The financial statements were approved by the Board of Directors on 3 June 2003 and signed on its behalf by:

Andrew Mackintosh Director **Martin Lamaison** Director



Group Cash Flow Statement year ended 31 March 2003

	Notes	2003 £000	2002 £000
Net cash inflow from operating activities	30	**14,913**	6,642
Dividend from joint venture		**2,473**	2,793
Returns on investments and servicing of finance	31	**(1,185)**	(1,104)
Taxation		**(1,973)**	(231)
Capital expenditure and financial investment	31	**(2,833)**	1,566
Acquisitions and disposals	17,18	**(371)**	(1,423)
Equity dividends paid		**(3,931)**	(3,939)
Cash inflow before management of liquid resources and financing		**7,093**	4,304
Management of liquid resources	31	**(5,795)**	(1,000)
Financing	31	**44**	123
Increase in cash in the year		**1,342**	3,427

Reconciliation of Net Cash Flow to Movement in Net Funds/(Debt) year ended 31 March 2003

	Notes	2003 £000	2002 £000
Increase in cash in the year		**1,342**	3,427
Change in liquid resources	31	**5,795**	1,000
Translation difference		**178**	(95)
Movement in net funds/(debt) in the year		**7,315**	4,332
Opening net debt		**(3,984)**	(8,316)
Closing net funds/(debt)	32	**3,331**	(3,984)

1 ACCOUNTING POLICIES

The following principal accounting policies have been applied consistently in dealing with items which are considered material to the Group's financial statements:

Basis of presentation of financial statements

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

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

Basis of consolidation

The consolidated financial statements include the accounts of the Company and its subsidiary undertakings made up to 31 March 2003. Unless otherwise stated, the acquisition method of accounting has been adopted. Under this method, the results of subsidiary undertakings acquired or disposed of in the year are included in the consolidated profit and loss account from the date of acquisition or up to the date of disposal.

An associate is an undertaking in which the Group has a long term interest, usually from 20% to 50% of the equity voting rights and over which it exercises significant influence. A joint venture is an undertaking in which the Group has a long term interest and over which it exercises joint control. The Group's share of the profits less losses of associates and of joint ventures is included in the consolidated profit and loss account and its interest in their net assets is included in investments in the consolidated balance sheet. The Group's interest in Oxford Magnet Technology Limited has been consolidated as a joint venture based on details extracted from its audited accounts to 30 September each year and management accounts as they relate to the Group's year end of 31 March.

All significant intra-group transactions have been eliminated on consolidation. Under Section 230(4) of the Companies Act 1985 the Company is exempt from the requirement to present its own profit and loss account. The profit for the financial year dealt with in the financial statements of the holding company was £19.1 million (2002 £1.9 million).

Going concern

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

Goodwill

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

Purchased goodwill (representing the excess of the fair value of the consideration given and associated costs over the fair value of the separable net assets acquired) arising on consolidation in respect of acquisitions since 1 April 1998 is capitalised. Positive goodwill is amortised to nil by equal annual instalments over its estimated useful life. Negative goodwill arising on consolidation in respect of acquisitions since 1 April 1998 is included within fixed assets and released to the profit and loss account in the periods in which the fair values of the non-monetary assets purchased on the same acquisition are recovered, whether through depreciation or sale. On the subsequent disposal or termination of a business acquired since 1 April 1998, the profit or loss on disposal or termination is calculated after charging (crediting) the unamortised amount of any related goodwill (negative goodwill).

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

Turnover

Turnover, which excludes value added tax and similar sales based taxes, represents sales to external customers of products and services and is stated before commissions payable to agents. Turnover is recognised on shipment, except for service contracts and long term contracts. Turnover from contracts for maintenance and support is recognised on a pro rata basis over the contract period. Turnover recorded at the time of shipment includes an allowance for installation and the estimated warranty and installation costs are accrued in full at the same time. Warranty costs are based on the historical relationship between actual costs incurred and the relevant turnover exposure.

Long term contracts

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

Stocks

Stocks and work in progress are valued at the lower of cost, including materials, direct labour and an attributable proportion of production overheads, and net realisable value, net of payments on account. Provision is made for obsolete, slow moving and defective stock where appropriate in the light of recent usage, expected future requirements, new product introduction plans and likely realisable values.

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

Cash and liquid resources

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

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

Research and development and grants

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

Depreciation

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

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

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

Taxation

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

Leases

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

Pensions

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

Foreign currencies and financial derivatives

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

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

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

2 SEGMENT INFORMATION – ANALYSIS BY BUSINESS

	Continuing operations				
	Before exceptional items £000	Exceptional items £000	Sub-total £000	Discontinued operations £000	**2003 £000**
Turnover					
Analytical	61,618	–	61,618	671	**62,289**
Medical	36,342	–	36,342	–	**36,342**
Superconductivity	88,633	–	88,633	–	**88,633**
	186,593	–	186,593	671	**187,264**
Profit/(loss) before interest and tax					
Analytical	2,790	(784)	2,006	(2,253)	**(247)**
Medical	(820)	(738)	(1,558)	–	**(1,558)**
Superconductivity	4,752	(577)	4,175	–	**4,175**
	6,722	(2,099)	4,623	(2,253)	**2,370**
Share of operating profit of joint venture	1,605	–	1,605	–	**1,605**
	8,327	(2,099)	6,228	(2,253)	**3,975**
Net operating assets					
Analytical	29,633	–	29,633	–	**29,633**
Medical	17,668	–	17,668	–	**17,668**
Superconductivity	31,348	–	31,348	–	**31,348**
	78,649	–	78,649	–	**78,649**

	Continuing operations				
	Before exceptional items £000	Exceptional items £000	Sub-total £000	Discontinued operations £000	2002 £000
Turnover					
Analytical	81,180	–	81,180	1,795	82,975
Medical	39,353	–	39,353	–	39,353
Superconductivity	91,352	–	91,352	–	91,352
	211,885	–	211,885	1,795	213,680
Profit/(loss) before interest and tax					
Analytical	7,891	–	7,891	(1,423)	6,468
Medical	(1,511)	1,826	315	–	315
Superconductivity	362	1,208	1,570	–	1,570
	6,742	3,034	9,776	(1,423)	8,353
Share of operating profit of joint venture	5,213	–	5,213	–	5,213
	11,955	3,034	14,989	(1,423)	13,566
Net operating assets					
Analytical	34,541	–	34,541	299	34,840
Medical	21,174	–	21,174	–	21,174
Superconductivity	33,323	–	33,323	–	33,323
	89,038	–	89,038	299	89,337

Details of the businesses are set out on page 1 and on pages 7 to 9. Exceptional items are detailed in Note 4. Discontinued operations comprise the analytical On-line Process Systems business sold in October 2002 (see Note 18).

2 SEGMENT INFORMATION – ANALYSIS BY BUSINESS continued

The net operating assets comprise:

	2003 £000	2002 £000
Tangible assets	**35,620**	38,849
Net working capital	**43,029**	50,488
Net operating assets	**78,649**	89,337

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

	2003 £000	2002 £000
Net operating assets	**78,649**	89,337
Current taxation	**(792)**	(1,332)
Deferred taxation	**3,982**	3,785
Dividends payable	**(2,811)**	(2,808)
Closing net cash/(borrowings)	**3,331**	(3,984)
Goodwill	**2,724**	4,428
Investments	**4,082**	5,740
Group net assets employed	**89,165**	95,166

3 SEGMENT INFORMATION – GEOGRAPHICAL ANALYSIS

	UK £000	Continental Europe £000	North America £000	Far East £000	Rest of World £000	2003 £000
Group turnover by destination						
Group and share of joint venture	16,897	83,957	82,572	41,939	6,028	**231,393**
Adjustment for share of trading between Group and joint venture	6,614	–	–	–	–	**6,614**
Less share of joint venture external turnover	(291)	(45,405)	(3,989)	(981)	(77)	**(50,743)**
Group turnover to third parties	23,220	38,552	78,583	40,958	5,951	**187,264**
including discontinued operations	*7*	*168*	*278*	*171*	*47*	***671***
Group turnover by origin						
Group and share of joint venture	191,236	–	40,157	–	–	**231,393**
Less share of joint venture turnover	(44,129)	–	–	–	–	**(44,129)**
Group turnover to third parties	147,107	–	40,157	–	–	**187,264**
including discontinued operations	–	–	*671*	–	–	***671***
Profit/(loss) before tax by origin						
Group operating (loss)/profit by origin	(2,213)	–	8,251	–	–	**6,038**
Share of operating profit of joint venture	1,605	–	–	–	–	**1,605**
Exceptional items	(2,071)	–	(28)	–	–	**(2,099)**
Operating (loss)/profit	(2,679)	–	8,223	–	–	**5,544**
including discontinued operations	–	–	*(684)*	–	–	***(684)***
Loss on disposal of discontinued business						**(1,569)**
Net interest payable						**(1,555)**
Profit on ordinary activities before tax						**2,420**
Net assets employed by location	44,935	12,127	30,389	1,714	–	**89,165**

3 SEGMENT INFORMATION – GEOGRAPHICAL ANALYSIS continued

	UK £000	Continental Europe £000	North America £000	Far East £000	Rest of World £000	2002 £000
Group turnover by destination						
Group and share of joint venture	20,163	87,145	98,611	47,736	6,625	260,280
Adjustment for share of trading between Group and joint venture	6,500	–	–	–	–	6,500
Less share of joint venture external turnover	(119)	(38,408)	(14,514)	(56)	(3)	(53,100)
Group turnover to third parties	26,544	48,737	84,097	47,680	6,622	213,680
including discontinued operations	*18*	*450*	*741*	*460*	*126*	*1,795*
Group turnover by origin						
Group and share of joint venture	222,657	–	37,623	–	–	260,280
Less share of joint venture turnover	(46,600)	–	–	–	–	(46,600)
Group turnover to third parties	176,057	–	37,623	–	–	213,680
including discontinued operations	–	–	*1,795*	–	–	*1,795*
Profit before tax by origin						
Group operating (loss)/profit by origin	(212)	–	5,531	–	–	5,319
Share of operating profit of joint venture	5,213	–	–	–	–	5,213
Exceptional items	–	–	–	–	–	–
Operating profit	5,001	–	5,531	–	–	10,532
including discontinued operations	–	–	*(1,423)*	–	–	*(1,423)*
Profit on disposal of properties						3,034
Net interest payable						(1,526)
Profit on ordinary activities before tax						12,040
Net assets employed by location	45,272	5,442	43,781	671	–	95,166

4 COST OF SALES, NET OPERATING EXPENSES AND EXCEPTIONAL ITEMS

	Continuing operations				
	Before exceptional items £000	Exceptional items £000	Sub-total £000	Discontinued operations £000	**2003 £000**
Cost of sales	126,733	387	127,120	546	**127,666**
Distribution costs	30,877	–	30,877	375	**31,252**
Research and development costs	12,641	–	12,641	30	**12,671**
Administrative expenses	9,471	1,712	11,183	242	**11,425**
Goodwill amortisation	149	–	149	162	**311**
Net operating expenses	53,138	1,712	54,850	809	**55,659**

	Continuing operations				
	Before exceptional items £000	Exceptional items £000	Sub-total £000	Discontinued operations £000	2002 £000
Cost of sales	146,542	–	146,542	1,069	147,611
Distribution costs	35,528	–	35,528	852	36,380
Research and development costs	12,932	–	12,932	285	13,217
Administrative expenses	10,152	–	10,152	688	10,840
Goodwill amortisation	(11)	–	(11)	324	313
Net operating expenses	58,601	–	58,601	2,149	60,750

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

Exceptional items

Exceptional items for the year ended 31 March 2003 relate to continuing operations. These comprise redundancy costs of £1,712,000 across all businesses and £387,000 costs incurred by Medical on the termination of its distribution agreement of its loss making sleep product line.

Exceptional items for the year ended 31 March 2002 comprised a profit before tax of £3,034,000 on the disposal of properties.

Research and development costs

In addition to the £12,671,000 (2002 £13,217,000) charged against research and development, no further costs (2002 £nil) have been charged to cost of sales in respect of funded projects. These figures are stated net of grants receivable of £441,000 (2002 £224,000). The total research and development costs, gross of funding and stock movements, were £13,216,000 (2002 £13,651,000). During the financial year the OMT joint venture also spent in total £7,335,000 (2002 £6,825,000) on research and development.

5 JOINT VENTURE

The Group owns 49% of the issued share capital of Oxford Magnet Technology Limited (OMT) of 3,000,000 £1 ordinary shares. It is engaged in advanced instrumentation and is registered and operates in England. The investment is accounted for as a joint venture in accordance with FRS 9.

The initial 15 year term of the joint venture agreement with Siemens, the majority shareholder and major customer, is due to end in September 2004. Under the terms of the joint venture agreement Siemens has the right to acquire the 49% shareholding held by Oxford Instruments.

Siemens has confirmed its intention to increase substantially its shareholding in OMT after September 2004. While Siemens would prefer an ongoing relationship with Oxford Instruments, it intends to exercise its right to assume 100% control of OMT in 2004 if no alternative arrangement is reached.

Until September 2004 Oxford Instruments will continue as a fully involved shareholder, both in strategic and operational decision making, together with active Board participation. Under the terms of the joint venture agreement a minimum dividend of 50% of the retained earnings of OMT is payable each year (of which Oxford Instruments is entitled to 49%), although 100% of annual earnings have been distributed to shareholders by agreement in recent years.

Based on the above it is deemed appropriate to continue to account for the investment in OMT as a joint venture.

The year end of OMT is 30 September. The summary financial details set out below have been extracted both from the management accounts and from the audited financial statements for OMT in respect of the periods relevant to the Group's financial year ended 31 March 2003 and show the Group's 49% share of the OMT results:

	2003 £000	2002 £000
Turnover	**56,534**	61,187
Operating profit	**1,605**	5,213
Net interest payable	**(387)**	(404)
Profit on ordinary activities before tax	**1,218**	4,809
Taxation	**(276)**	(1,487)
Profit for the financial year attributable to shareholders (see Note 16)	**942**	3,322
Fixed assets	**3,150**	2,780
Current assets	**16,978**	16,519
Creditors: amounts falling due within one year	**(17,931)**	(15,398)
Net current (liabilities)/assets	**(953)**	1,121
Total assets less current liabilities	**2,197**	3,901
Provisions for liabilities and charges	**(438)**	(611)
Net assets employed	**1,759**	3,290

5 JOINT VENTURE continued

The Group share of the joint venture turnover as shown in the Group Profit and Loss Account on pages 30 and 31 has been derived after adjusting for trading between the Group and OMT as follows:

	2003 £000	2002 £000
49% of joint venture turnover	**56,534**	61,187
Less 49% of sales of materials and services by OMT to Group	**(5,791)**	(8,087)
Less 49% of sales of materials and services by Group to OMT	**(6,614)**	(6,500)
Group share of joint venture turnover	**44,129**	46,600

6 TOTAL NET INTEREST PAYABLE

	2003 £000	2002 £000
Interest receivable on deposits at short call	**17**	50
Interest payable and similar charges on bank loans and overdrafts	**(1,185)**	(1,172)
Group net interest payable	**(1,168)**	(1,122)
Share of joint venture net interest payable	**(387)**	(404)
Total net interest payable	**(1,555)**	(1,526)

The interest payable and similar charges on bank loans and overdrafts includes a £577,000 (2002 £223,000) charge arising from US dollar: Sterling swap arrangements that were in place during the year. This is the cost of managing cash and borrowings between the UK and USA and arises from the interest rate differential between Sterling and US dollar. The increase in cost compared to the prior year reflects both a widening in the interest rate differential and an increase in the amount of the currency being swapped. Just prior to the year end the swap amount was substantially reduced.

7 PROFIT/(LOSS) ON ORDINARY ACTIVITIES BEFORE TAX

	2003 £000	2002 £000
Profit/(loss) on ordinary activities before tax is stated after (charging)/crediting:		
Depreciation of tangible fixed assets	**(5,417)**	(5,996)
Amortisation of Oxford Instruments plc shares held under the Long Term Incentive Plan	**(239)**	(224)
Amortisation of goodwill	**(311)**	(313)
Net loss on disposal of fixed assets	**(123)**	(25)
Rentals payable in respect of operating leases:		
Hire of plant, machinery and vehicles	**(953)**	(584)
Other operating leases	**(2,373)**	(2,193)
Fees paid to auditor and its associates:		
Services as auditors	**(222)**	(220)
Non audit services		
Tax compliance	**(6)**	(19)
Tax advisory services	**–**	(19)
Internal audit	**(1)**	(3)
Accounting assistance	**(3)**	(9)
Total non audit services fees	**(10)**	(50)
Total fees paid to auditor and its associates	**(232)**	(270)

The fees for auditing the parent company's accounts were £50,000 (2002 £50,000).

8 EMPLOYEES

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

	2003	2002
Production	**844**	896
Sales and marketing	**392**	395
Research and development	**257**	267
Administration	**181**	215
Total average number of employees	**1,674**	1,773

The number of employees at 31 March was:

By country	2003	2002
UK	**908**	1,095
USA	**441**	479
Germany	**46**	55
Japan	**46**	47
France	**25**	26
Italy	**17**	22
Spain	**22**	22
Rest of World	**55**	52
Total employees	**1,560**	1,798

By business	2003	2002
Analytical	**536**	641
Medical	**299**	337
Superconductivity	**725**	820
Total employees	**1,560**	1,798

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

	2003 £000	2002 £000
Wages and salaries	**52,460**	56,860
Social security costs	**4,971**	5,626
Other pension costs	**2,909**	3,456
Total payroll costs	**60,340**	65,942

9 PENSIONS

	2003 £000	2002 £000
The total pension cost for the Group was as follows:		
Defined benefit scheme – UK	**1,913**	2,275
Defined benefit scheme – Others	**534**	764
Defined contribution schemes	**462**	417
Total pension costs	**2,909**	3,456

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

Defined benefit scheme – United Kingdom

In the UK the Group and all participating employees hired before 1 April 2001 contribute to the defined benefit Oxford Instruments Pension Scheme. The cost of this scheme is assessed in accordance with the advice of a qualified independent actuary using the projected unit method. The last actuarial valuation of this scheme was at 31 March 2000 when the actuary advised that the regular company funding rate for the Scheme on current market conditions should be 15.8% over the long term. The principal assumptions underlying this rate were that the return on investments would be 6.25% per annum, salary increases would average 4% per annum and future pensions in payment would increase by 2.75% per annum.

9 PENSIONS continued

At 31 March 2000, the date of the last actuarial valuation, the market value of the assets of this scheme was £89.8 million. The assets represented 130% of the value of the benefits that had accrued to members at that date based on the assumptions set out above including assumed future increases in earnings. This surplus is being spread over the remaining working life of the scheme members, estimated to be 12.5 years giving rise to an overall charge for the year of 8.5% (2002 9.25%) of pensionable salaries.

During the year the Group contributed to the Scheme at a rate of 11.5% (2002 11.5%) of pensionable salary. The contribution rate has resulted in the prior year prepayment of £261,000 increasing to £988,000 at 31 March 2003.

Defined benefit scheme – Others

The Group also provides defined benefit pension schemes in the USA and Japan.

Defined contribution schemes

Since 1 April 2001 all new joiners in the UK have been offered participation in the defined contribution Oxford Instruments Stakeholder Plan. Other defined contribution schemes are the Oxford Instruments 1998 Executive Pension Scheme, a UK scheme, and the 401k defined contribution plan in the USA.

FRS 17 retirement benefits

The three defined benefit schemes in the UK, USA and Japan have been assessed as at 31 March 2003 in the manner prescribed by the new Accounting Standard, FRS 17, in order to provide an indication of how these schemes would have been reflected in the Group Accounts under FRS 17. This was to have come fully into effect for the Group Accounts for the year ending 31 March 2004 but full implementation has now been deferred by the Accounting Standards Board. These further disclosures are included below.

For FRS 17 purposes, the last full valuations of the main schemes were updated to 31 March 2003 by qualified independent actuaries using the following assumptions:

	United Kingdom		USA		Japan	
	2003 %	2002 %	**2003 %**	2002 %	**2003 %**	2002 %
Rate of general increase in salaries	**3.5**	3.8	**4.0**	4.0	**1.7**	1.7
Rate of increase of pensions in payment	**2.3**	2.6	**3.0**	3.0	**0.0**	0.0
Discount rate for scheme liabilities	**5.5**	5.9	**6.0**	6.0	**2.2**	2.2
Inflation	**2.5**	2.8	**3.0**	3.0	**0.0**	0.0

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

	United Kingdom				USA				Japan				Total	
	Expected long term rate of return		Market value		Expected long term rate of return		Market value		Expected long term rate of return		Market value		Market value	
	2003 %	2002 %	**2003 £m**	2002 £m	**2003 %**	2002 %	**2003 £m**	2002 £m	**2003 %**	2002 %	**2003 £m**	2002 £m	**2003 £m**	2002 £m
Equities	**8.0**	8.0	**49.2**	66.0	**8.5**	10	**2.2**	2.5	–	–	–	–	**51.4**	68.5
Bonds	**5.5**	5.5	**10.0**	10.2	–	–	–	–	–	–	–	–	**10.0**	10.2
Property	**6.5**	6.5	**4.1**	4.8	–	–	–	–	–	–	–	–	**4.1**	4.8
Cash and other assets	**4.0**	4.0	**7.0**	4.2	–	–	–	–	**0.7**	0.7	**1.3**	1.2	**8.3**	5.4
			70.3	85.2			**2.2**	2.5			**1.3**	1.2	**73.8**	88.9
Present value of scheme liabilities			**(101.5)**	(90.8)			**(4.5)**	(4.3)			**(0.7)**	(0.7)	**(106.7)**	(95.8)
(Deficit)/surplus in the schemes			**(31.2)**	(5.6)			**(2.3)**	(1.8)			**0.6**	0.5	**(32.9)**	(6.9)
Related deferred tax asset/(liability)			**9.4**	1.7			**0.9**	0.7			**(0.2)**	(0.2)	**10.1**	2.2
Net pension (liability)/asset			**(21.8)**	(3.9)			**(1.4)**	(1.1)			**0.4**	0.3	**(22.8)**	(4.7)

9 PENSIONS continued

An analysis of the approximate defined benefit cost for the year to 31 March 2003 pursuant to FRS 17 is:

	UK £ million	USA £ million	Japan £ million	**Total £ million**
Current service cost	3.8	0.4	0.1	**4.3**
Past service cost	–	–	–	**–**
Total operating charge	3.8	0.4	0.1	**4.3**
Expected return on pension investments	6.5	0.2	–	**6.7**
Interest on pension liabilities	(5.5)	(0.2)	–	**(5.7)**
Total credit to other finance income	1.0	–	–	**1.0**
Total charge to profit and loss account before deduction of tax if FRS 17 is applied	2.8	0.4	0.1	**3.3**

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

	UK £ million	USA £ million	Japan £ million	**Total £ million**
Actual return less expected return on pension scheme assets	(23.5)	(0.7)	0.1	**(24.1)**
Experience gains and (losses) arising on the scheme liabilities	–	–	–	**–**
Loss on change of assumptions	(1.8)	–	–	**(1.8)**
Total actuarial loss recognised in STRGL	(25.3)	(0.7)	0.1	**(25.9)**

Analysis of FRS 17 movements in (deficit)/surplus during the year:

	UK £ million	USA £ million	Japan £ million	**Total £ million**
(Deficit)/surplus at 1 April 2002	(5.6)	(1.8)	0.5	**(6.9)**
Foreign exchange adjustment	–	0.1	–	**0.1**
Current service cost	(3.8)	(0.4)	(0.1)	**(4.3)**
Contributions	2.5	0.5	0.1	**3.1**
Other finance income	1.0	–	–	**1.0**
Actuarial loss	(25.3)	(0.7)	0.1	**(25.9)**
(Deficit)/surplus at 31 March 2003	(31.2)	(2.3)	0.6	**(32.9)**

For the UK Scheme, the full actuarial valuation at 31 March 2000 updated to 31 March 2002 showed a deficit of £5.6 million. Contributions net of expenses of £2.5 million (11.5% of pensionable earnings) were made during the year ended 31 March 2003. Contributions for the next year will continue to be at the rate of 11.5% of pensionable earnings, inclusive of expenses, until the implications of the actuarial valuation at 31 March 2003 have been evaluated. As the scheme is closed to new members, under the projected unit method, the current service cost will increase as the members of the scheme approach retirement.

The full actuarial valuation for the USA scheme at 31 December 2001 was updated to 31 December 2002. Results at 31 March 2003 have been taken to be the same as those at 31 December 2002. In the year to 31 December 2001, the deficit in the scheme increased to £1.8m. Contributions of £0.5m (6.7% of pensionable earnings) were made during the year ended 31 December 2002. It is likely that the contributions for the next year will remain at that level.

The Japanese scheme had a surplus of £0.5m at the time of the last full actuarial valuation at 28 February 2002. This surplus was unchanged on update to 31 March 2002. Contributions of £0.1m (10.5% of pensionable earnings) were made in the year ended 31 March 2003. No change is expected in the contribution rate in the coming year.

In connection with the FRS 17 deficits estimated above it should be noted that Company and employee contribution rates to the UK defined benefit scheme were increased in 2001 and will be reviewed again as soon as the 2003 actuarial valuation is available. In addition $1.7 million (£1.1 million) has already been accrued as a liability in the Group consolidated accounts in connection with the USA pension scheme.

It is emphasised that the schemes' assets are not intended to be realised in the short term and may be subject to significant change before they are realised. In addition, the schemes' liabilities are derived from cash flow projections over long periods and are affected by changes in the assumptions adopted. The market value of the UK scheme assets was £76.5 million at 31 May 2003.

9 PENSIONS continued

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

	UK	USA	Japan	**Total**
Difference between the expected and actual return:				
Amount £ million	(23.5)	(0.7)	0.1	**(24.1)**
% of scheme assets	(34%)	(27%)	7%	
Experience gains and losses on scheme liabilities:				
Amount £ million	–	–	–	–
% of the present value of the scheme liabilities	–	–	–	
Total amount recognised in statement of total recognised gains and losses:				
Amount £ million	(25.3)	(0.7)	0.1	**(25.9)**
% of the present value of the scheme liabilities	(25%)	(14%)	13%	

10 TAX ON PROFIT/(LOSS) ON ORDINARY ACTIVITIES

Analysis of tax charge in the year

The charge based on the profit/(loss) for the year comprises:

	2003 £000	2002 £000
UK corporation tax:		
Loss in the period	**(1,036)**	(1,380)
Adjustments relating to prior years	**(261)**	(59)
Tax on share of profit of joint venture	**275**	1,487
	(1,022)	48
Foreign tax:		
Profit in the period	**2,867**	3,490
Adjustments relating to prior years	**(227)**	(282)
	2,640	3,208
Total current tax	**1,618**	3,256
Deferred tax:		
Origination and reversal of timing differences in respect of:		
Profit/(loss) in the period	**311**	(140)
Adjustment to the estimated recoverable amount of deferred assets arising in previous periods	**(745)**	(424)
Total deferred tax (Note 26)	**(434)**	(564)
Total tax on profit/(loss) on ordinary activities	**1,184**	2,692

The tax credit for exceptional items has been apportioned based on the underlying effective rate of taxation for the year applicable to all profits and losses. For the discontinued items the tax credit has been calculated by comparing the computed taxation charge if these items did not exist to the overall tax charge for the period.

Factors that may affect future tax charges

The Group's overseas tax rates are generally higher than those in the UK. The Group provides for deferred tax assets if it is more likely than not that they will reverse in the future. Deferred tax assets estimated at £5,976,000 (2002 £7,581,000) have not been recognised due to the degree of uncertainty about the utilisation of the underlying tax losses and deductions.

10 TAX ON PROFIT/(LOSS) ON ORDINARY ACTIVITIES continued

Factors affecting tax charge for the period

	2003 £000	2002 £000
Group profit on ordinary activities before tax	**2,420**	12,040
Group profit on ordinary activities before tax at 30% (UK corporation tax rate)	**726**	3,612
Effects of:		
Permanent differences	**619**	79
Goodwill amortised	**(184)**	76
Short term timing differences	**(779)**	(184)
Accounting depreciation in excess of tax depreciation	**1,133**	371
Current tax losses not utilised	**135**	131
Adjustments relating to prior years' corporation tax	**(488)**	(341)
Net cost of different rates of taxation in overseas undertakings	**706**	521
Tax losses utilised in the year	**(67)**	(1,014)
Differences in UK and overseas accounting policies	**(183)**	5
Total current tax	**1,618**	3,256

11 DIRECTORS' REMUNERATION AND INTERESTS

Information on Directors' remuneration, pensions, shareholdings and options is set out on pages 23 to 28 and forms part of these Financial Statements.

12 DIVIDENDS

	2003 £000	2002 £000
Interim dividend of 2.4p (2002 2.4p) per share, paid on 24 March 2003	**1,124**	1,123
Proposed final dividend 6.0p per share (2002 6.0p), payable on 3 October 2003	**2,811**	2,808
Total dividend of 8.4p per share (2002 8.4p)	**3,935**	3,931

Subject to the approval of the shareholders at the Annual General Meeting on 29 July 2003, the proposed final dividend will be paid on 3 October 2003 to shareholders registered at the close of business on 5 September 2003. The ordinary shares will be quoted ex-dividend on 3 September 2003. The dividends payable on the shares held in trust under the Senior Executive Long Term Incentive Scheme and the Executive Share Option Scheme have been waived (see Note 16).

13 EARNINGS PER SHARE

Earnings per share has been calculated as follows:

	2003 £000	2002 £000
Continuing operations		
Profit for the financial year	**4,463**	7,817
Exceptional items	**(1,710)**	2,474
Discontinued operations – loss for the financial year	**(1,517)**	(943)
Net profit for the financial year	**1,236**	9,348

	Shares 000	Shares 000
Weighted average ordinary shares in issue during year	**46,803**	46,879
Dilutive effect of employee share options	**269**	169
Diluted weighted average ordinary shares	**47,072**	47,048

14 INTANGIBLE ASSETS – GOODWILL

	Goodwill £000	Negative goodwill £000	Group Total £000
Cost			
At 31 March 2002	6,639	(2,523)	4.116
Addition	77	–	77
Disposal	(2,590)	–	(2,590)
At 31 March 2003	**4,126**	**(2,523)**	**1,603**
Amortisation			
At 31 March 2002	(1,813)	2,125	312
Amortisation	(709)	398	(311)
Disposal	1,120	–	1,120
At 31 March 2003	**(1,402)**	**2,523**	**1,121**
Net book value			
At 31 March 2002	4,826	(398)	4,428
At 31 March 2003	**2,724**	**–**	**2,724**

On 2 October 2002 the analytical On-line Process Systems business was sold. As part of the disposal, goodwill with a net book value of £1,470,000 was written off (see Note 18).

The addition in the year relates to additional goodwill contingent on the post acquisition performance of the ROFA business acquired *in the year ended 31 March 2000.*

15 TANGIBLE FIXED ASSETS

	Group			Company		
	Property £000	Other fixed assets £000	Total £000	Property £000	Other fixed assets £000	Total £000
Cost						
At 31 March 2002	26,153	49,710	75,863	246	1,573	1,819
Exchange adjustments	(367)	(770)	(1,137)	–	–	–
Additions	28	2,939	2,967	–	263	263
Reallocations	4	(4)	–	–	–	–
Disposals	–	(5,347)	(5,347)	–	(90)	(90)
At 31 March 2003	**25,818**	**46,528**	**72,346**	**246**	**1,746**	**1,992**
Depreciation						
At 31 March 2002	4,397	32,617	37,014	71	1,274	1,345
Exchange adjustments	(160)	(569)	(729)	–	–	–
Amounts provided	545	4,872	5,417	5	272	277
Disposals	–	(4,976)	(4,976)	–	(81)	(81)
At 31 March 2003	**4,782**	**31,944**	**36,726**	**76**	**1,465**	**1,541**
Net book value						
At 31 March 2002	21,756	17,093	38,849	175	299	474
At 31 March 2003	**21,036**	**14,584**	**35,620**	**170**	**281**	**451**

15 TANGIBLE FIXED ASSETS continued

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

	Group 2003 £000	Group 2002 £000	**Company 2003 £000**	Company 2002 £000
Property				
Freehold land	**3,731**	3,767	**–**	–
Freehold buildings	**11,429**	11,915	**170**	175
Long leasehold land and buildings	**5,730**	5,832	**–**	–
Short leasehold land and buildings	**146**	242	**–**	–
	21,036	21,756	**170**	175
Other fixed assets				
Machinery and other equipment	**6,728**	7,326	**2**	3
Fixtures and fittings	**5,934**	6,896	**12**	15
Computer equipment	**1,611**	2,249	**266**	266
Vehicles	**311**	622	**1**	15
	14,584	17,093	**281**	299

The Directors believe the open market value of freehold land and buildings exceeds the book value by approximately £4.5 million (2002 £6.0 million), which if realised through disposal would create a tax liability of approximately £0.5 million (2002 £0.8 million). Freehold land is not depreciated, but the remainder of the property gross cost of £22.1 million (2002 £22.4 million) is depreciated.

16 INVESTMENTS

	Group 2003 £000	Group 2002 £000	**Company 2003 £000**	Company 2002 £000
Shares in subsidiary undertakings	**–**	–	**66,630**	66,630
Shares in joint venture	**–**	–	**1,634**	1,634
Investment in joint venture	**1,759**	3,290	**–**	–
Executive Share Option and Senior Executive Long Term Incentive Scheme shares held in trust	**1,019**	1,146	**1,019**	1,146
Other investments	**1,304**	1,304	**1,304**	1,304
	2,323	2,450	**2,323**	2,450
	4,082	5,740	**70,587**	70,714

In July 2002 49,751 Oxford Instruments plc shares were purchased under the Senior Executive Long Term Incentive Scheme. The cost of these shares is being written off over the three year period to 31 March 2005.

In total 1,080,497 shares (2002 1,105,746) are now held in the Employee Benefit Trust in relation to Executive Share Option and Senior Executive Long Term Incentive Schemes. Dividends on these shares are being waived.

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

	Shares in subsidiary undertakings £000	Shares in joint venture £000	Investment in joint venture £000	Executive incentive scheme shares £000	Other investments £000
Cost or valuation					
At 31 March 2002	66,630	1,634	3,290	1,146	1,304
Share of retained profit for the year	–	–	942	–	–
Dividends received	–	–	(2,473)	–	–
Oxford Instruments plc shares acquired	–	–	–	112	–
Amounts written off	–	–	–	(239)	–
At 31 March 2003	**66,630**	**1,634**	**1,759**	**1,019**	**1,304**

16 INVESTMENTS continued

	Shares in subsidiary undertakings £000	Shares in joint venture £000	Investment in joint venture £000	Executive incentive scheme shares £000	Other investments £000
Representing:					
Investments at cost less amounts written off	66,630	1,634	1,634	1,019	1,304
Share of post acquisition retained profit	–	–	125	–	–
	66,630	**1,634**	**1,759**	**1,019**	**1,304**

Other investments at 31 March 2003 comprise:

Investment	Principal activity	Percentage of ordinary share capital held
Oxford BioSignals Limited	Advanced signal processing and neural network technology delivering advanced health monitoring solutions to medical and engineering markets	10%
Oxford Diffraction Limited	X-ray diffraction system and ancillary products for chemical crystallography and protein structure determination	25%
Target Systemelectronic GmbH	Measurement instruments for nuclear radiation detection	20%
Oxfordshire Biotechnet Limited	Business accommodation and support for start-ups and early-stage bioscience companies	5%

17 ACQUISITIONS

There were no acquisitions in the year ended 31 March 2003. In the prior year ended 31 March 2002, the Group acquired the business and assets of CMI International Corporation based in Chicago, USA.

18 DISPOSALS

On 1 July 2002 part of the Cambridge-based Thin Films business was transferred to Cambridge University for nil consideration. There was no profit or loss on disposal. The intellectual property connected with the Thin Films business has been licensed to Cambridge University with Oxford Instruments benefiting from a royalty stream from any future commercial developments. Given the developmental stage of the project at the time of the business transfer, no future benefit of royalty income has been recognised.

On 2 October 2002 the Group sold its On-line Process Systems business, based in North Andover, USA for a deferred consideration of £266,000. The tangible net assets and liabilities were sold at net book value for which a cash payment of £104,000 was made on 10 October 2002. The consideration for the intangible asset is contingent upon the business performance over the next five years and has been estimated based on forecasts and has been discounted back.

The transaction is analysed as follows:

	£000
Net tangible assets sold	164
Net tangible liabilities transferred	(268)
Net liabilities sold	(104)
Amount paid to purchaser	104
Net expenses	(365)
Deficit to net tangible assets	(365)
Deferred proceeds	266
Goodwill written off	(1,470)
Net loss on disposal	(1,569)
Cash paid to settle net liabilities	(104)
Net expenses paid	(267)
Cash outflow on disposal	(371)

19 PRINCIPAL SUBSIDIARY UNDERTAKINGS

	Equity owned by the Company %	Country of incorporation	Principal activity
Oxford Instruments Superconductivity Holdings Ltd	100	England	Holding
Oxford Instruments Medical Holdings Ltd	100	England	Holding
Oxford Instruments Analytical Holdings Ltd	100	England	Holding
Oxford Instruments Overseas Holdings Ltd	100	England	Holding
Oxford Instruments Superconductivity Ltd	*100	England	Trading
Oxford Instruments Medical Ltd	*100	England	Trading
Oxford Instruments Analytical Ltd	*100	England	Trading
Oxford Instruments Plasma Technology Ltd	*100	England	Trading
Oxford Instruments Overseas Marketing Ltd	*100	England	Marketing
Oxford Instruments Holdings Inc	*100	USA	Holding
Oxford Instruments Inc	*100	USA	Holding
Oxford Medical Inc	*100	USA	Holding
Oxford Superconducting Technology	*100	USA	Trading
Austin Scientific Company	*100	USA	Trading
Oxford Instruments Medical Inc	*100	USA	Distribution
Oxford Instruments America Inc	*100	USA	Distribution
Oxford Instruments (Tennessee) Inc	*100	USA	Trading
Oxford Instruments X-Ray Technology Inc	*100	USA	Trading
Oxford Instruments Measurement Systems LLC	*100	USA	Trading
Oxford Instruments GmbH	*100	Germany	Distribution
Oxford Instruments SARL	*100	France	Distribution
Oxford Instruments BV	*100	The Netherlands	Distribution
Oxford Instruments Nederland BV	*100	The Netherlands	Distribution
Oxford Instruments SA	*100	Spain	Distribution
Oxford Instruments SpA	*100	Italy	Distribution
Oxford Instruments NV	*100	Belgium	Distribution
Oxford Instruments KK	*100	Japan	Distribution
Oxford Magnets KK	*100	Japan	Distribution
Oxford Instruments Pte Ltd	*100	Singapore	Distribution

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

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

20 STOCKS

	Group 2003 £000	Group 2002 £000
Raw materials and consumables	**16,014**	24,016
Work in progress	**12,747**	16,294
Finished goods and goods for resale	**7,695**	8,208
Total stocks	**36,456**	48,518

21 DEBTORS

	Group 2003 £000	Group 2002 £000	Company 2003 £000	Company 2002 £000
Amounts falling due within one year				
Trade debtors	**42,476**	49,075	**–**	–
Amounts recoverable on contracts	**6,773**	6,620	**–**	–
Amounts owed by subsidiary undertakings	**–**	–	**50,368**	51,402
Amounts owed by joint venture	**1,758**	1,866	**–**	–
Other debtors	**2,965**	3,489	**50**	237
Prepayments and accrued income	**3,117**	2,575	**307**	165
	57,089	63,625	**50,725**	51,804
Amounts falling due after one year				
Deferred tax (see Note 26)	**3,982**	3,785	**–**	–
Total debtors	**61,071**	67,410	**50,725**	51,804

22 CASH AT BANK AND IN HAND

	Group 2003 £000	Group 2002 £000	Company 2003 £000	Company 2002 £000
Cash at bank and in hand	**6,411**	4,806	**31,654**	29,809

23 CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	Group 2003 £000	Group 2002 £000	Company 2003 £000	Company 2002 £000
Bank loans and overdrafts	**3,080**	7,982	**16,017**	35,470
Payments received on account	**7,019**	8,047	**–**	–
Trade creditors	**12,522**	15,128	**248**	497
Amounts owed to subsidiary undertakings	**–**	–	**6,424**	2,083
Amounts owed to joint venture	**4,931**	5,480	**–**	–
Other creditors	**1,841**	3,164	**10**	–
Corporation tax, UK and overseas	**1,847**	2,297	**1,482**	725
Payroll tax, social security and sales related taxes	**1,726**	2,242	**44**	62
Accruals and deferred income	**16,078**	20,593	**668**	602
Proposed dividends	**2,811**	2,808	**2,811**	2,808
Other creditors	**48,775**	59,759	**11,687**	6,777

24 CREDITORS: AMOUNTS FALLING DUE AFTER ONE YEAR

	Group 2003 £000	Group 2002 £000	Company 2003 £000	Company 2002 £000
Bank loan	**–**	808	**–**	–

25 PROVISIONS FOR LIABILITIES AND CHARGES

	Warranty provisions £000	Pension obligations £000	Other provisions £000	Group Total £000
At 31 March 2002	4,377	1,292	367	6,036
Provided in the year	3,639	357	–	3,996
Utilised in the year	(2,738)	(378)	(24)	(3.140)
Released unused	(1,157)	(85)	(95)	(1,337)
Exchange movements	(83)	(128)	–	(211)
At 31 March 2003	**4,038**	**1,058**	**248**	**5,344**

Warranty provisions reflect the Group's standard terms and conditions. In general these apply for a year, and, as a result, the majority of the provision is expected to be utilised within a twelve month period. The provision for pension obligations relates to pension costs charged to the profit and loss account, but under IRS regulations, not yet paid into the USA defined benefit scheme. These pension payments are expected to be made over several future accounting periods. Other provisions relate primarily to surplus leases and reflect the discounted value of the expected shortfall in rental income against rental costs. The provision will be used over the related lease periods.

26 DEFERRED TAX

	Group 2003 £000	Group 2002 £000	**Company 2003 £000**	Company 2002 £000
Deferred tax asset				
At 31 March 2002	**3,785**	3,228	**–**	–
Transfer to profit and loss account	**434**	564	**–**	–
Exchange movements	**(237)**	(7)	**–**	–
As at 31 March 2003	**3,982**	3,785	**–**	–

	Group Recognised 2003 £000	Group Recognised 2002 £000	**Group Unrecognised 2003 £000**	Group Unrecognised 2002 £000
The amounts for deferred tax assets, representing the full potential asset, are set out below:				
Excess of depreciation over corresponding capital allowances	**1,135**	630	**1,089**	1,821
Other timing differences	**2,669**	3,155	**238**	582
Carried forward losses	**178**	–	**4,649**	5,178
	3,982	3,785	**5,976**	7,581

A deferred tax asset of £3,982,000 (2002 £3,785,000) has been recognised in the accounts. This asset relates to short term timing differences, mainly in the USA, accelerated capital allowances which have not been fully claimed in the UK and losses in some of the Group's overseas operations. The Group has recognised the assets only to the extent that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted and the losses utilised.

At 31 March 2003 the Company had an unrecognised deferred tax asset of £258,000 (2002 £417,000) of which £258,000 (2002 £119,000) related to accelerated capital allowances and £nil (2002 £298,000) was in respect of carry forward losses.

27 CALLED UP SHARE CAPITAL

	2003 Shares 000	2003 £000	2002 Shares 000	2002 £000
Authorised				
Ordinary shares of 5p each	**58,000**	**2,900**	58,000	2,900
Allotted, called up and fully paid				
Ordinary shares of 5p each	**47,926**	**2,396**	47,901	2,395

	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	24,734	£1,237	£1.39 – £1.87

	2003 Number of shares	Option price range	Period when exercisable	2002 Number of shares
Options subsisting at the year end on unissued ordinary shares				
Executive Share Option Schemes	**2,236,112**	£1.48 – £4.87	01/04/03 – 12/12/12	1,525,708
Savings Related Share Option Scheme	**954,832**	£1.27 – £3.03	01/04/03 – 31/07/08	1,075,470
Total options subsisting on unissued ordinary shares	**3,190,944**			2,601,178
Percentage of issued share capital	**6.7%**			5.4%
Options subsisting at the year end on existing ordinary shares held in trust or to be purchased				
Senior Executive Long Term Incentive Scheme	**395,134**	Nil	01/04/03 – 19/12/09	554,383
Executive Share Option Scheme	**174,750**	*£1.86 – £1.96*	*01/04/03 – 24/12/10*	*199,750*
Individual Options	**487,113**	Nil – £2.95	01/04/03 – 29/01/09	487,113
Total options subsisting on existing ordinary shares held in trust or to be purchased	**1,056,997**			1,241,246

28 RESERVES

	Share premium account £000	Capital redemption reserve £000	Other reserves £000	Group Profit and loss account £000
At 31 March 2002	18,776	125	15,805	58,065
Premium on issued shares	43	–	–	–
Retained loss for the financial year	–	–	–	(2,699)
Other exchange adjustments	–	–	–	(3,346)
At 31 March 2003	**18,819**	**125**	**15,805**	**52,020**

Purchased goodwill of £39,726,000 (2002 £39,726,000), previously eliminated against reserves, has been offset against the profit and loss account.

	Share premium account £000	Capital redemption reserve £000	Other reserves £000	Company Profit and loss account £000
At 31 March 2002	18,776	125	7,594	81,664
Premium on issued shares	43	–	–	–
Retained profit for the financial year	–	–	–	15,115
At 31 March 2003	**18,819**	**125**	**7,594**	**96,779**

Distributable reserves of the Company at 31 March 2003 were £96,779,000 (2002 £81,664,000).

29 RECONCILIATIONS OF MOVEMENTS IN EQUITY SHAREHOLDERS' FUNDS

	Group 2003 £000	Group 2002 £000	**Company 2003 £000**	Company 2002 £000
Profit for the financial year	**1,236**	9,348	**19,050**	1,867
Dividends paid and proposed	**(3,935)**	(3,931)	**(3,935)**	(3,931)
Retained (loss)/profit for the financial year	**(2,699)**	5,417	**15,115**	(2,064)
Exchange differences on foreign currency net investments	**(3,346)**	(144)	**–**	–
New share capital subscribed	**44**	123	**44**	123
Net (reduction)/increase in equity shareholders' funds	**(6,001)**	5,396	**15,159**	(1,941)
Opening equity shareholders' funds	**95,166**	89,770	**110,554**	112,495
Closing equity shareholders' funds	**89,165**	95,166	**125,713**	110,554

30 NET CASH FLOW FROM OPERATING ACTIVITIES

	2003 £000	2002 £000
Group operating profit	**3,939**	5,319
Depreciation charges	**5,656**	6,220
Amortisation of goodwill	**311**	313
Net loss on disposal of fixed assets	**123**	25
Change in stocks	**10,903**	(3,730)
Change in debtors	**5,426**	1,402
Change in creditors	**(10,683)**	(2,774)
Change in provisions	**(762)**	(133)
Net cash inflow from operating activities	**14,913**	6,642

Included in net cash flows from operating activities are outflows of £1,687,000 (2002 £nil) relating to exceptional items.

31 CASH FLOWS NETTED IN THE CASH FLOW STATEMENT

	2003 £000	2002 £000
Interest received	**17**	50
Interest paid	**(1,202)**	(1,154)
Net cash outflow from returns on investments and servicing of finance	**(1,185)**	(1,104)
Purchase of fixed assets	**(2,967)**	(4,806)
Sale of fixed assets	**246**	6,786
Investments acquired	**(112)**	(414)
Net cash (outflow)/inflow for capital expenditure and financial investment	**(2,833)**	1,566
Decrease in term loans	**(5,795)**	(1,000)
Net cash outflow from management of liquid resources	**(5,795)**	(1,000)
Issue of ordinary shares including share premium	**44**	123
Net cash inflow from financing	**44**	123

32 MOVEMENT IN NET FUNDS/(DEBT)

	At 31 March 2003 £000	Exchange rate effect £000	Reclassification £000	Cash movement in year £000	At 31 March 2002 £000
Cash at bank and in hand	**6,411**	120	–	1,485	4,806
Bank overdrafts	**(352)**	(21)	–	(143)	(188)
Net cash	**6,059**	99	–	1,342	4,618
Debt due within one year	**(2,728)**	(1)	(728)	5,795	(7,794)
Debt due after one year	**–**	80	728	–	(808)
Net funds/(debt)	**3,331**	178	–	7,137	(3,984)

33 DERIVATIVES AND FINANCIAL INSTRUMENTS

Forward foreign currency contracts

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

Changes in the fair value of foreign currency contract hedges are not recognised in the financial statements until the hedged position matures. An analysis of these unrecognised gains and losses at 31 March 2003 was as follows:

	Gains £000	(Losses) £000	Net total £000
Unrecognised gains and losses at 31 March 2002	691	(965)	(274)
Gains and losses arising in previous year recognised in current year	(691)	965	274
Gains and losses arising in current year and not recognised in current year	388	(648)	(260)
Unrecognised gains and losses at 31 March 2003	**388**	**(648)**	**(260)**

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

The gross contract values of the forward contracts which the Group had not yet recognised at 31 March 2003 were:

	Gross contract value million	Book value £000	Fair value £000
US Dollars	12	–	254
Japanese Yen	500	–	117
Euros	21	–	(631)

The net foreign currency monetary assets after taking account of contract hedges at 31 March 2003 were:

	Net monetary assets £000
US Dollars	–
Japanese Yen	–
Euros	–

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

33 DERIVATIVES AND FINANCIAL INSTRUMENTS continued

Financial assets and financial liabilities

Other than short term debtors and short term creditors the Group had the following financial assets and financial liabilities at the 31 March 2003:

	Currency	Interest rate	**Book and fair value £000**
Cash in hand and short term deposits	Sterling	floating	**2,195**
Cash in hand	US Dollar	floating	**1,073**
Cash in hand	Singapore Dollar	floating	**60**
Cash in hand and short term deposits	Euro	floating	**1,967**
Cash in hand and short term deposits	Japanese Yen	none	**1,116**
Total financial assets			**6,411**
Bank loans	Sterling	floating	**(2,000)**
Bank loans	US Dollar	floating	**(728)**
Bank overdraft	Euro	floating	**(352)**
Total financial liabilities			**(3,080)**

Maturity of financial assets and liabilities

All financial assets and liabilities mature within one year or on demand.

Interest rates

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

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

Borrowing facilities

The Group had committed borrowing facilities at 31 March 2003 of £15.0 million (2002 £15.0 million) of which the following were undrawn:

	2003 £000	2002 £000
Expiring in less than 1 year	**10,000**	3,000
Expiring in more than 1 year but less than 2 years	**5,000**	6,000

34 CONTINGENT LIABILITIES

	Group 2003 £000	Group 2002 £000	**Company 2003 £000**	Company 2002 £000
Guarantees in respect of subsidiary undertakings' indebtedness	**–**	–	**1,040**	920
Guarantees in respect of joint venture indebtedness	**–**	–	**7,595**	7,595
	–	–	**8,635**	8,515

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

Other than disclosed in Notes 9 and 25, there are no unfunded pension or post retirement medical costs. No security has been given in respect of any contingent liability.

Since the year end one of the new Analytical products has become subject to proposed new testing requirements in one country for a specific application. The equipment of all suppliers used for this purpose will need to be tested over the next few months. In the event that these tests are unsuccessful this could result in additional costs which are unlikely to exceed £1.2 million.

35 OTHER COMMITMENTS

	Group 2003 £000	Group 2002 £000	Company 2003 £000	Company 2002 £000
Capital commitments				
Contracted for but not provided	**206**	1,158	–	–

Leasing commitments

Annual commitments under non cancellable operating leases expiring within:

		Group 2003 £000	Group 2002 £000	Company 2003 £000	Company 2002 £000
1 year	Land and buildings	**165**	210	–	–
	Other	**72**	102	**16**	–
	Total	**237**	312	**16**	–
2 to 5 years	Land and buildings	**998**	862	–	–
	Other	**628**	508	**44**	36
	Total	**1,626**	1,370	**44**	36
Thereafter	Land and buildings	**755**	895	–	–
	Other	–	2	–	–
	Total	**755**	897	–	–

36 EXCHANGE RATES

The principal exchange rates to sterling used were:

Average translation rates	*2003*	*2002*
US Dollar	**1.54**	1.43
Euro	**1.56**	1.62
Yen	**188**	180

Average contract rates	2003	2002
US Dollar	**1.50**	1.47
Euro	**1.59**	1.59
Yen	**176**	159

Year end rates	*2003*	*2002*
US Dollar	**1.58**	1.42
Euro	**1.45**	1.63
Yen	**187**	189

The formal notice convening the Company's 2003 Annual General Meeting (AGM) and explanations of the resolutions the Directors will be proposing at the meeting are set out below.

NOTICE OF THE 2003 ANNUAL GENERAL MEETING

Notice is hereby given that the thirty ninth Annual General Meeting of Oxford Instruments plc will be held at 2.30pm on 29 July 2003 at the offices of Oxford Instruments Superconductivity Limited, Tubney Woods, Abingdon, Oxon OX13 5QX to transact the following business:

ORDINARY BUSINESS

1 Directors' Report and Accounts
To receive and adopt the Reports and Financial Statements for the year ended 31 March 2003 and the Report of the Auditors thereon.

2 Final dividend
To declare the final dividend for the year to 31 March 2003.

3 Re-election and election of Directors
(a) To re-elect Martin Lamaison who retires by rotation but, being eligible, will be proposed for re-election.
(b) To re-elect Peter Morgan who retires by rotation but, being eligible, will be proposed for re-election.
(c) To elect Bernard Taylor who, having been appointed since the last Annual General Meeting, retires, but being eligible, will be proposed for election.

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

5 Permission for the Directors to issue further shares
To consider as an Ordinary Resolution that the authority conferred by Article 10.1 of the Articles of Association be renewed until the earlier of the expiry of the next following Annual General Meeting of the Company and the date which is fifteen months from the date of the passing of this Resolution and that the Section 80 amount be £798,763.

6 Relaxation of the restrictions which normally apply when ordinary shares are issued for cash
To consider as a Special Resolution that the authority conferred by Article 10.2 of the Articles of Association be renewed until the earlier of the expiry of the next following Annual General Meeting of the Company and the date which is fifteen months from the date of the passing of this Resolution and that the Section 89 amount be £119,814.

7 Authority to buy back up to 10% of the Company's issued share capital
To consider as a Special Resolution that pursuant to Article 4 of the Articles of Association of the Company and subject to the provisions of the Companies Act 1985 ("the Act") the Company be generally and unconditionally authorised to purchase by market purchase (as defined by Section 163 of the Act) up to 4,792,582 ordinary shares of 5p each in its own capital subject to the following:
(i) the purchase price for any shares so purchased shall not exceed a sum (exclusive of all expenses) equal to 105% of the average of the middle market quotations for ordinary shares for the five business days immediately preceding the day of purchase (as derived from the London Stock Exchange Daily Official List) and shall not be less than the nominal value of the share;
(ii) the authority shall expire on the earlier of the close of the following Annual General Meting or the expiry of fifteen months from the date of the passing of the Resolution
(iii) the Company may make a contract for purchase which would, or might, be executed wholly or partly after the expiry of the authority
(iv) any shares purchased pursuant to the authority may be selected by the Directors in any manner as they from time to time deem appropriate.

SPECIAL BUSINESS

8 Directors' Remuneration Report
To consider as an Ordinary Resolution and approve the Directors' Remuneration Report set out on pages 23 to 28 of the Reports and Financial Statements for the year ended 31 March 2003.

9 Donations to EU political organisations and EU political expenditure
To consider as an Ordinary Resolution that the Company be and is hereby authorised to:
(i) make donations to EU political organisations (which are not a registered party); and
(ii) incur EU political expenditure
in an aggregate amount not exceeding £100,000 per annum during the period commencing on the date of this resolution and ending on the date of the Annual General Meeting in 2004. For the purposes of this resolution, the expressions "Donations", "EU political organisations", "EU political expenditure" and "registered party" have the meanings set out in section 347A of the Companies Act 1985 (as amended by the Political Parties, Elections and Referendums Act 2000).

10 Amendment to the SAYE Scheme 1995

To consider as an Ordinary Resolution that the rules of the Oxford Instruments plc Approved Savings Related Share Option Scheme 1995 be amended by adding the following:

"That subject to and conditional upon the approval of the Board of the Inland Revenue and such amendments or conditions as they shall require the Rules of the Oxford Instruments plc Approved Savings Related Share Option Scheme 1995 be amended in *such manner as shall be required or be reasonably expedient to procure that options may be granted over existing issued shares,* and the exercise of subsisting and future options may also be satisfied by the transfer of existing issued shares to exercising Option Holders at the respective Subscription Price provided that any stamp duty payable arising upon exercise may be discharged by the Company."

PROVIDED that such amendment shall not take effect unless and until approved by the Inland Revenue and is subject to such changes and/or further amendments as in the opinion of the Directors shall be necessary or conducive to obtaining such approval.

MEETING NOTES

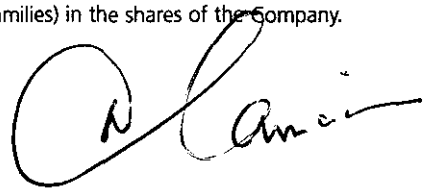
1 A member entitled to attend and vote at the Meeting is entitled to appoint one or more proxies to attend and, on a poll, to vote instead of him. Such proxy or proxies need not be a member or members of the Company. A Form of Proxy is enclosed.

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

3 Pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001, the Company specifies that only those Shareholders registered in the register of members of the Company as at the close of business on 28 July 2003 shall be entitled to attend or vote at the Meeting in respect of the number of Ordinary Shares registered in their name at that time. Changes to entries on the relevant register of securities after the close of business on 28 July 2003 shall be disregarded in determining the rights of any person to attend or vote at the Meeting.

4 Copies of the following documents will be available for inspection at the Registered Office of the Company and at the offices of the Company's solicitors, Laytons, Carmelite, 50 Victoria Embankment, London EC4Y 0LS during normal business hours on any weekday (Saturdays and public holidays excepted) from the date of this Notice at and until the conclusion of the Meeting:
(i) the service contracts of Andrew Mackintosh and Martin Lamaison;
(ii) the register of interests of Directors (and their families) in the shares of the Company.

By Order of the Board
Martin Lamaison Company Secretary
27 June 2003



EXPLANATORY NOTES ON THE PROPOSED RESOLUTIONS

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

Resolutions 1 to 7 are known as the ordinary business of the meeting because these matters are dealt with routinely at every Oxford Instruments plc AGM. Resolutions 1 to 5 will be proposed as ordinary resolutions. More than 50% of the votes cast must support these resolutions in order for them to be passed. Resolutions 6 and 7 will be proposed as special resolutions and 75% or more of the votes cast must support them in order for these resolutions to be passed. Shareholders will also be asked to vote on three more resolutions (Resolutions 8 to 10) which are regarded as special business and will be proposed as ordinary resolutions. As described above, as ordinary resolutions more than 50% of the votes cast must support these resolutions in order for them to be passed.

Ordinary Business

Resolution 1 – Shareholders will be asked to approve the adoption of the Reports and Financial Statements for the year ended 31 March 2003.

Resolution 2 – Shareholders will be asked to approve payment of a final dividend of 6.0p per ordinary share for 2003. If approved at the AGM the dividend will be paid on 3 October 2003 to shareholders registered at the close of business on 5 September 2003.

Resolutions 3 (a), (b) and (c) – Oxford Instruments plc's Articles of Association state that every director shall retire from office at the third AGM after the AGM at which they were last elected. All Directors take it in turn to retire in this way. This gives shareholders the chance to confirm their re-appointments. At the 2003 AGM Martin Lamaison and Peter Morgan are retiring but are standing for re-election.

The Articles of Association further state that where the Board appoints a new director, that Director must stand for election at the next AGM. This gives shareholders the chance to confirm this appointment. Bernard Taylor was appointed a director on 13 November 2002, and as required is retiring and standing for election.

The biographical details of all the directors standing for re-election and election are set out on pages 14 and 15.

Resolutions 4 (a) and (b) – Oxford Instruments plc is required to appoint auditors at each general meeting at which accounts are laid before the shareholders. The auditors are appointed from the conclusion of the forthcoming AGM until the conclusion of next year's AGM. Shareholders will be asked to appoint KPMG Audit Plc as the Company's auditor until next year's AGM and to authorise the directors to set the fees.

Resolution 5 – This resolution lifts the restrictions which would apply to the Directors' power to issue or agree to issue new shares and will allow the Directors to issue or agree to issue further shares up to an aggregate nominal amount of £798,763. This represents one-third of the issued ordinary share capital on 31 March 2003. This authority replaces the previous power of the Directors to allot relevant securities and, if passed, will lapse at the earlier of the AGM following its passing or, if later, on 28 October 2004. The Directors have no present intention of issuing new ordinary shares, other than pursuant to the exercise of options under employees' share schemes.

Resolution 6 – Unless they are given an appropriate authority, Directors may allot new equity shares for cash (excluding shares issued under employees' share schemes) only if they have first been offered to existing shareholders in proportion to their holdings. There may however be occasions when in order to act in the best interests of the shareholders and the Company, the Directors will need the flexibility to finance business opportunities as they arise by the issue of a small number of shares for cash in circumstances such as the acquisition of a new company or business by the Group. The maximum amount of ordinary shares to be covered under the power, with the exception of a rights issue or other pre-emptive offers, is 2,396,291, which represents 5% of the issued ordinary share capital on 31 March 2003. This special resolution replaces the Directors' existing authority and, if passed, will have lapsed at the earlier of the AGM following its passing or, if later, on 28 October 2004.

Resolution 7 – This is a renewal of the authority granted to Directors at the 2002 AGM. It allows the Company to buy back up to 4,792,582 of its issued ordinary shares on the stock market. This is equal to 10% of the Company's issued share capital on 31 March 2003. The resolution sets out the lowest and highest prices the Company can pay for the shares.

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

This power will automatically lapse at the end of Oxford Instruments plc's next AGM following its passing or on 28 October 2004 which ever is earlier.

Special Business

Resolution 8 – Under new regulations, the "Directors Remuneration Report Regulations 2002", directors are required to ask shareholders to vote on the Directors' Remuneration Report (shown on pages 23 to 28). The Directors, who have unanimously endorsed the Directors' Remuneration Report, consider that asking the shareholders to vote on this report facilitates accountability and transparency.

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

In order to comply with its obligations and to avoid any inadvertent infringement of PPERA, Oxford Instruments plc considers it is prudent to seek shareholders' approval for a maximum aggregate level of donation. Resolution 9 seeks authority for Oxford Instruments plc to make donations to EU Political Organisations or incur EU Political Expenditure not exceeding £100,000 per annum. The Company has no intention of using this authority for any purpose other than a continuation of normal business and employment practices.

This authority would last until the conclusion of the Company's AGM in 2004.

Resolution 10 – At present the rules of the Company's Approved Savings Related Share Option Scheme 1995 ("the SAYE Scheme") only permit the grant of options to subscribe for unissued shares. The SAYE Scheme is, thus, limited by the overall limit applying to options over new shares that applies on an aggregated basis to all the Company's share incentive schemes. In order to provide the SAYE Scheme with a greater capacity to award options and also to enable it to award options which are non-dilutive the Directors will be seeking the approval of shareholders to amend the rules of the SAYE Scheme to allow options to be awarded (and for existing options to be satisfied) either by the subscription for new shares or the purchase of existing shares (which would generally have been acquired by an Employee Benefit Trust).

Financial calendar

31 March 2003	Financial year end
3 June 2003	Announcement of preliminary results
29 July 2003	Annual General Meeting
3 September 2003	Ordinary shares quoted ex-dividend
5 September 2003	Record date for final dividend
3 October 2003	Payment of final dividend
Mid November 2003	Announcement of half year results
End March 2004	Payment of interim dividend
31 March 2004	Financial year end

Administrative enquiries

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

Capita Registrars
The Registry, 34 Beckenham Road
Beckenham, Kent BR3 4TU
Tel 0870 1623100
Fax 020 8639 2342

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

Dividend bank mandates

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

Consolidation of share certificates

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

Shareholder enquiries

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

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

Company registration

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

Website – www.oxford-instruments.com

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

Share dealing scheme

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

Cazenove & Co. Ltd
20 Moorgate, London, EC2R 6DA
Tel 020 7588 2828
Fax 020 7155 9000

Analysis of shareholders as at 31 March 2003

Size of shareholding	Number of holders	% of total	Total holding	% of total
Up to 5,000 shares	3,286	91.1	2,117,478	4.4
5,001 to 50,000 shares	231	6.4	3,369,194	7.0
50,001 to 200,000 shares	49	1.4	5,121,815	10.7
Over 200,000 shares	41	1.1	37,317,337	77.9
Total	3,607	100.0	47,925,824	100.0

	1999 £000	2000 £000	2001 £000	2002 £000	**2003 £000**
Profit and loss account					
Group and share of joint venture turnover	217,031	201,068	221,910	260,280	**231,393**
Less share of joint venture turnover	(49,220)	(40,378)	(36,775)	(46,600)	**(44,129)**
Group turnover	167,811	160,690	185,135	213,680	**187,264**
Group operating profit/(loss)	3,979	(14,689)	(1,352)	5,319	**3,939**
Share of operating profit of joint venture	7,165	5,800	4,350	5,213	**1,605**
Total operating profit/(loss)	11,144	(8,889)	2,998	10,532	**5,544**
Profit/(loss) on sale of business	–	2,855	599	–	**(1,569)**
Profit on disposal of properties	–	–	–	3,034	**–**
Goodwill previously written off	–	(11,986)	–	–	**–**
Net interest receivable/(payable)	375	197	(792)	(1,526)	**(1,555)**
Profit/(loss) on ordinary activities before tax	11,519	(17,823)	2,805	12,040	**2,420**
Taxation	(3,670)	(1,647)	(2,869)	(2,692)	**(1,184)**
Profits/(losses) attributable to shareholders	7,849	(19,470)	(64)	9,348	**1,236**
Balance sheet					
Intangible assets - goodwill	(1,624)	1,607	4,411	4,428	**2,724**
Tangible fixed assets	42,749	40,815	43,731	38,849	**35,620**
Investments	5,062	5,024	5,021	5,740	**4,082**
Stocks	34,481	36,114	43,696	48,518	**36,456**
Debtors	63,867	63,208	69,338	67,410	**61,071**
Other creditors	(47,214)	(53,284)	(61,933)	(59,759)	**(48,775)**
Net current assets, excluding net cash/(debt)	51,134	46,038	51,101	56,169	**48,752**
Cash at bank and on short term deposits	9,130	5,709	1,643	4,806	**6,411**
Bank loans and overdrafts	(3,099)	(3,105)	(9,959)	(8,790)	**(3,080)**
Net cash/(debt)	6,031	2,604	(8,316)	(3,984)	**3,331**
Provisions for liabilities and charges	(4,441)	(8,552)	(6,178)	(6,036)	**(5,344)**
Net assets employed	98,911	87,536	89,770	95,166	**89,165**
Equity shareholders' funds	98.911	87,536	89,770	95,166	**89,165**
Cash flow					
Net cash inflow/(outflow) from operating activities	12,908	(1,563)	(1,925)	6,642	**14,913**
Interest and dividends, paid and received	834	(246)	(694)	(2,250)	**(2,643)**
Taxation	(7,485)	(119)	(250)	(231)	**(1,973)**
Investing activities	(6,396)	(1,620)	(8,157)	143	**(3,204)**
Net cash (outflow)/inflow before management of liquid resources and financing	(139)	(3,548)	(11,026)	4,304	**7,093**
	pence	pence	pence	pence	**pence**
Per ordinary share					
Earnings/(losses)	16.2	(41.3)	(0.1)	19.9	**2.6**
Earnings/(losses) from continuing operations before exceptional items	16.2	(3.4)	6.3	14.6	**9.5**
Dividends	8.4	8.4	8.4	8.4	**8.4**
Net assets attributable to shareholders	207.0	183.0	187.7	198.7	**186.0**
Employees					
Average number of employees	1,809	1,619	1,551	1,773	**1,674**

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