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Oxford Instruments plc Annual Report and Accounts 2004



Group Profile

Oxford Instruments comprises three business areas, providing solutions and components for customers in life sciences, research and industry.

Analytical

A leading specialist in the design, supply and support of instruments, systems 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.

Medical

An international supplier of measuring instruments and accessories for the routine monitoring of certain physiological properties of the human body, including muscle and nerve impulses. 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.

	Analytical Results		Medical Results		Superconductivity Results	
	2004 £ million	2003 £ million	2004 £ million	2003 £ million	2004 £ million	2003 £ million
Turnover*	58.5	61.6	34.7	36.3	89.1	88.7
Operating profit/(loss)**	3.7	2.9	0.1	(1.3)	4.2	5.2
Net operating assets	24.6	29.6	11.8	17.7	30.2	31.3
Employees	549	536	274	299	684	725

Group Results

	2004 £ million	2003 £ million
Orders	177.9	185.7
Turnover*	182.3	186.6
Operating profit**	8.0	6.8
Group operating profit	5.7	3.9
Profit before tax	11.9	2.4
Net cash	20.7	3.3
Shareholders' funds	92.9	89.2
	2004 pence per share	2003 pence per share
Earnings**	11.4	7.9
Earnings	21.3	2.6
Dividends	8.4	8.4
Net assets	193.1	186.0
Employees at year end	1,507	1,560

* From continuing wholly owned operations

** Before exceptional items, terminated business and goodwill amortisation

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Oxford Instruments has for over forty years been a global leader in advanced instrumentation, with customers in industry, research and healthcare. The Company today employs 1,500 people in 16 countries and has been listed on the London Stock Exchange since 1983.

We are known for our outstanding innovative capabilities and have a string of technical 'firsts' to our name. We have successfully built a sound operational platform from which to lever our technical strengths and we are now directing our business activities towards solving problems for customers in attractive worldwide markets such as life sciences, nanotechnology and environmental quality control.

Our strategy is to increase our ability to supply complete solutions to customer problems by growing our businesses which offer full materials measurement and processing capability. The technical differentiation provided by our components and sub-systems businesses are key to our success.

We are confident that we can continue to build value for our shareholders and all the other stakeholders in our business.



Since our reorganisation, we have focussed on creating a strong operational platform for each of the businesses as a base from which to drive the strategic future of the Company.

In the past year we have made further substantial improvements in operating performance, including returning our Medical business to profitability. We have increased net cash by £17.4m during the year, including a reduction of working capital of £9.0m. A range of actions has delivered higher margins and profitability despite difficult trading conditions, compounded by the severe adverse impact of currency movements and increased pension costs. These two items impacted profits by £3.0m in the year.

Following the successful realisation of the value from our investment in Oxford Magnet Technology (OMT), we have started to change the portfolio of products in order to focus our technical strengths to address end user markets where we can create value for our customers. Actions include the acquisition in October 2003 of VG Semicon and the recent trade announcement of an exclusive licence agreement with GE Healthcare for the development of new tools for molecular analysis.

Orders received during the year of £178m (2003 £186m) were in line with our forecasts. Recently introduced products in the Medical and Analytical businesses have generated an encouraging level of orders, while orders for the Superconductivity business were down on last year, partly as a result of reduced demand for high-field magnets. New orders from the semiconductor sector were unchanged on the previous year, reinforcing our belief that business levels from this sector have stabilised.

Despite lower orders, turnover of the continuing businesses of £182m (2003 £187m) was down only slightly on the previous year, even after the impact of currency movements.

At constant currency rates turnover in 2003/04 would have been approximately £5m higher than reported. This result reflects continued progress in reducing our order backlog and shortening our lead times to customers. Along with other improvement programmes, the introduction of 'lean' manufacturing techniques is contributing strongly to the more reliable and responsive timing of customer deliveries.

Margins improved again, with gross profit for the continuing businesses increasing to 33% from 32% of sales as a result of continued efforts to reduce product costs. This was despite the weakening dollar, which increased pressure on selling prices in many major markets during the second half of last year.

Operating profits of continuing wholly-owned operations before exceptional items, terminated business and goodwill amortisation increased by 18% to £8.0m (2003 £6.8m). Improved profit performance in the Medical and Analytical businesses reduced the impact of a weaker result from the Superconductivity business. Currency movements and increased pension costs had a major effect on profits during the year and at 2002/03 exchange rates and pension charges operating profit would have been £3.0m higher at £11.0m.

Profit before tax, but after exceptional costs, terminated business, the result of the termination of OMT and a much-reduced interest charge of £0.2m (2003 £1.6m), increased substantially to £11.9m (2003 £2.4m). Exceptional items included redundancy costs of £1.1m, primarily associated with reorganisation of the Medical business. A loss of £0.5m was incurred from the operation of a new venture in the Superconductivity business prior to the external financing of this activity and its relaunch as ARKeX in March 2004. A profit of £6.3m (net of costs and operating losses) was made on the disposal of our investment in OMT, the joint venture with Siemens.

The momentum in our operational improvement programmes is shown by the significant reduction in working capital from 23% to 19% of sales, an improvement of £9.0m. Inventory levels were reduced by £8.0m in the year, a reduction of 20%. This follows a decrease in the previous year of £12.1m.

Closing net cash was £20.7m, an increase of £17.4m. Cash inflows from operations (£17.8m) and the disposal of shares in OMT (£8.5m) were partially offset by payments for capital expenditure (£2.2m), taxation (£2.4m), acquisitions (£0.2m) and dividends to shareholders (£3.9m). The strong cash generation from operations was achieved by improved profits, better working capital management and careful control of expenditure on fixed assets.

The tax rate of continuing businesses was 34%, as a result of the mix of profits generated in the USA and the UK. Total reported profits for the financial year of £10.0m (2003 £1.2m) included after-tax profits of £4.8m (2003 £3.5m) from continuing wholly-owned businesses, losses from exceptional items and terminated business of £1.2m (2003 £1.7m) and profits of £6.4m from our interest in the OMT joint venture.

Earnings per share from continuing wholly-owned businesses before exceptional items, terminated business and goodwill amortisation were 11.4 pence (2003 7.9 pence). The Board has recommended a final dividend of 6.0 pence, making a total dividend for the year of 8.4 pence, unchanged from last year.

The Company continues to account for pensions in accordance with SSAP 24. The charge to profits calculated under this standard was £1.4m higher at £3.8m (2003 £2.4m), based on the 2003 actuarial valuation. This valuation also led to an increase in contribution rates in the UK for both Company and employees during the year.

Peter Hill left the Board on 31 May 2004 as he does not meet the criteria for independence set out in the new Combined Code. This is because he and I have a common directorship in another UK-listed public company. We would like to thank Peter for his valuable contribution over the last five years.

Looking ahead, we have identified a number of value-enhancing options for the business and have established a sound operational base from which to implement them. We will continue to focus on improving profitability and returns across our businesses by building on the momentum generated over recent years. We are also assessing carefully the value that each of our businesses contributes to the whole and how this will be optimised. The progress we have made towards our goals is due to our talented workforce and I would like to thank all our employees for their hard work in delivering a creditable improvement in performance. By anticipating the evolving demands of our customers and meeting these through innovative, cost-effective and rapid solutions we are confident in our ability to generate long-term value for shareholders.

Nigel Keen
Chairman
3 June 2004



“Looking ahead, we have identified a number of value-enhancing options for the business and have established a sound operational base from which to implement them. We will continue to focus on improving profitability and returns across our businesses by building on the momentum generated over recent years.”

Improved performance

The Company has increased profits in a year when markets remained subdued, pension costs increased significantly and adverse currency movements had a severe impact. The translation and transaction effects of changes in currency strength can be estimated, but the biggest impact on the business arising from a weak US dollar is the effect on product volumes and margins in the market place. Our operational focus has helped us to remain competitive and increase margins despite the strength of sterling relative to the US dollar – the currency used in our biggest markets.

Our work on supply chain management has entered a new phase over the past year, with increasing volumes of our low-volume high-variety components being sourced from lower-cost countries. We estimate that some £15m of our product cost currently sourced locally can potentially be procured overseas at significantly reduced cost. Volumes procured by these routes in the past year were less than £5m.

We have continued to maintain a focus on improving our new product introduction processes, concentrating in particular on the front end – translating customer needs into innovative and cost-effective product specifications. We have maintained our investment in R&D during the year at £13m (2003 £13m), representing 7% of sales.

Our worldwide sales coverage is a key strength of the business. In the past year, we have increased our support for our customers in China by opening a new operations facility in Shanghai. While initially to be used for the rebuilding of detectors, this will ultimately serve as a base for a range of assembly activities for the local market. We have also opened a small office in Russia and are already seeing the benefits of an increased local presence.

We have continued our strategy of streamlining our portfolio to simplify our business and to exit non-core markets. We have been successful in obtaining external financing to create 'ARKeX', a new business exploiting proprietary technology under licence from Oxford Instruments which enables the search for oil, gas and mineral deposits to be carried out from the air. We retain a 24% stake in ARKeX and this adds to our small but important portfolio of spin-out investments.

Analytical

Turnover for the year was £59m (2003 £62m), with second half turnover including £2.1m from the VG Semicon business acquired in October 2003. Asia continues to be the primary driver of growth in the market for our Analytical products. Operating profits before exceptional items and goodwill amortisation improved to £3.7m (2003 £2.9m) following the cost reduction programmes instigated in the previous year and including a £0.5m contribution from VG Semicon, which exceeded its early financial forecasts.

The segment of our business which serves the semiconductor industry accounted for approximately 20% of sales. This segment remained profitable in the year, with product cost reduction initiatives helping to offset significant price reductions in a quiet market. A brief rise in order and enquiry levels from the semiconductor segment at the end of 2003 has not been sustained, but under new management we are making selective investments in order to ensure that we benefit from an eventual market upturn.

In other industrial markets, our 'Twin-X' product platform, which was launched in February 2003 for a range of quality control applications requiring chemical analysis, exceeded internal forecasts during the year. Sales in the UK and the USA were particularly strong and the product platform is

“Our operational focus has helped us to remain competitive and increase margins despite the strength of sterling relative to the US dollar – the currency used in our biggest markets.”

establishing itself as a market leader. The growing reputation of 'Twin-X' has also boosted sales of the older products in the portfolio. In the last quarter we have responded to impending changes in the laws controlling the sulphur content of petrol and diesel by launching an innovative new version of 'Twin-X' aimed at this legislation-driven market.

Sales in France of our 'Horizon' hand-held spectrometer continue to be affected by issues relating to the securing of the necessary government approvals for this technology. Although customer reaction to our product is enthusiastic, we are not expecting a rapid resumption of activity in this segment. However we are confident in the product concept and are therefore investing in other variants of 'Horizon' in order to take the product into new markets.

Sales of our microanalysis product line were stable during the year. We continue to improve the attractiveness of this market-leading product with software upgrades. For example, we launched during the year an improved version of a dedicated package that allows police and forensic customers to detect and analyse the microscopic particles that are emitted when a gun is fired.

Sales of low-power X-ray tubes increased 35% over the past year. We have established ourselves as a leading independent supplier of products in this small, but technically important market. Technology relationships with NASA and other partners will underpin our continued strength in this segment going forward.

Medical

Turnover for the year of £35m (2003 £36m) was ahead of our forecasts. The business has returned to profitability, with a profit before exceptional items and goodwill

amortisation of £0.1m (2003 £1.3m loss) in the year. Following on from our strategic review, we have taken a number of actions aimed at releasing value from the business. We have further reduced the volume of non-core third party products being sold through our overseas sales channels. Turnover has therefore dropped, but gross margins have improved significantly – helped by growth in overseas sourcing – and overheads are lower.

Our operational improvement programmes have been particularly successful, with nearly £5m cash being generated from the business during the year as stock reduction and outsourcing programmes took effect.

In the last quarter we implemented the second phase of a simplification of the organisational structure in the UK and overseas into discrete product groups. When complete over the next few months this will reduce headcount by 21, or 7%. We are now starting to deliver product direct to customers in northern Europe from our UK factory, enabled by internal improvements and an extension of our IT system to those countries.

We have been responding to customer demands for new products with a series of upgrades designed to improve our competitiveness. We have increased sales of our Synergy EMG (electromyography) product, our FM800 labour and delivery monitor and our EMG needles accessories during the year following the introduction of new variants requested by the market.

While the operating performance of the business is improving, we continue to review our strategic options to ensure that we generate an acceptable return for our shareholders from the business.

Superconductivity

Despite lower orders during the year, turnover for the year of £89m (2003 £89m) was stable as product lead times were further reduced. Operating profit before exceptional items, terminated business and goodwill amortisation was £4.2m (2003 £5.2m). Although profits of £3.1m in the second half were ahead of the previous year (2003 £2.6m), this was not enough to make up for a poor first half.

We have made excellent technical progress with the 'Discovery' magnet, used for new drug discovery research. Three systems are being used by customers, while following successful testing in the factory two more systems are being delivered to customer sites. The high price of these complex systems is currently limiting the size of the market and we are presently looking at a number of alternative sales channels and business models for 'Discovery' and related products. The temporary problems reported earlier in the year with other high-field magnets have now been resolved.

Overall, following major investments in technology development over the past 4 years, we have again made material improvements in both our magnet quality and our installation processes this year, improving the predictability of our installation of these complex products by a further 40%, to a level which we believe leads the industry. Over the past year we have started to see the benefits of this investment coming through in many areas of the business. While the manufacturing efficiency of existing products is improving – also reducing product cost and lead times – we are in turn able to accelerate the launch of new and differentiated products. For example, in recent months we have announced both magnets and low-temperature

equipment which do not need refilling with liquid helium, thereby reducing running costs and increasing ease of use for the customer.

The intellectual property we create through this investment can also be valuable to other companies. In the past year we have received royalty income for our intellectual property and will continue to pursue such opportunities in future.

Following a long period of technical collaboration, we have recently announced an agreement with GE Healthcare which gives us exclusive rights to develop certain applications of a novel magnet-based sample preparation technique in the life sciences market. This ground-breaking technology is attracting a great deal of interest in the research community because it holds out the promise of increasing significantly the sensitivity of existing measurements. Under the terms of the agreement, Oxford Instruments will be responsible for the instrumentation development, while GE Healthcare will supply the proprietary reagents which are central to the technique.

Since the year end we have restructured our magnet business into three market-facing product groups to enable more focus on this opportunity and the others in the business while controlling costs. As a result of this change headcount will fall by approximately 30 or 4% over the coming months.

A significant proportion of the output of the magnet business currently goes to OEM customers, whose performance is therefore important to us. Our new supply relationship with Thermo Electron is growing ahead of expectations. However, business has been slower in the past year in the traditional

Contribution to improvement in pre-tax profit

2003		£5.6m
Analytical		£0.8m
Medical		£1.4m
Superconductivity		£(1.0)m
Goodwill		£(0.6)m
Interest		£1.0m
2004		£7.2m

Continuing wholly owned operations before exceptional items and terminated business.

market for NMR spectrometers – equipment which uses superconducting magnets. As a result Varian – one of our major customers – has recently implemented a significant inventory reduction programme. This will hold back magnet shipment volumes in the first half of 2004/05.

Our US-based superconducting wire business has had a challenging year, as the growth in wire volume has not been enough to compensate for lower prices. Local profits were consequently slightly lower than the previous year. Volumes of wire delivered to OMT were down in the first half of the year as previously reported, while in the last quarter margins of one specific product for OMT were affected by quality problems in our supply base. Shipments of material to the customer have continued during this period, while margins should start to recover over the next few months now that the cause has been identified.

We are currently processing evaluation quantities of novel wire product for the new 'ITER' programme (a \$5bn multinational project designed to generate clean energy from fusion reactions). The programme has widespread government support and when the final site decision is taken it is expected that this project will generate very significant additional requirements for superconducting wire over the next few years.

Our US-based MRI magnet field service business received a supplier award from Siemens Medical Systems (SMS) for a third year in a row. Following the end of the OMT joint venture, we continue to work closely with SMS to add value to their customer offerings in the USA.

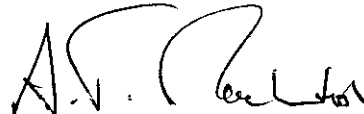
Prospects

The year has started encouragingly, with very early results being ahead of last year. While we anticipate that volumes in the Superconductivity business will be lower in the first half, both the Superconductivity business and the Medical business will be operating from a lower cost base in the second half of the year as a result of actions already taken. This will help us to make further overall progress during the year. We are confident that our world class technologies and strong market positions will enable us to deliver improved returns for shareholders.

Andrew Mackintosh

Chief Executive

3 June 2004



“We are confident that our world class technologies and strong market positions will enable us to deliver improved returns for shareholders.”

Nanotechnology

Nanotechnology is merely a new word for what scientists and engineers have been doing for years: controlling the design and manufacture of materials and structures on an ever-smaller scale. Worldwide over two billion pounds a year is now being spent on developing new products and services using nanotechnology. From the creation of microscopic

structures such as the triggering devices for car air-bags, to the low-temperature environmental control of quantum computers with enormous potential processing power, to the chemical analysis of new man-made materials on a near-atomic scale, instrumentation solutions from Oxford Instruments are at the heart of a new world of research and commercial opportunities.

Life Sciences

Fundamental new discoveries in the life sciences with the potential for transforming healthcare continue to excite researchers and clinicians. The ongoing revolution in the fields of drug discovery, genomics and proteomics has created an expanding market for instrumentation solutions worth over six billion pounds in 2003. From the supply of the special wire

used in body scanner magnets, to the creation of innovative magnetic field environments for new experiments in molecular medicine, to sophisticated diagnostic equipment for hospital use, Oxford Instruments is a leader in helping customers in the life sciences solve important scientific and medical problems.

Trading results

Group turnover for continuing wholly-owned operations for the year to 31 March 2004 of £182.3m was £4.3m lower than the previous year and Group operating profit of the continuing wholly-owned operations, before goodwill amortisation, exceptional items and terminated business, was £8.0m, up 18% from the previous year.

Both turnover and profit were significantly impacted by the overall change in exchange rates during the year. If the same exchange rates had applied during the year to 31 March 2004 as in the previous year, turnover would have been £5.3m higher at £187.6m and operating profit of continuing wholly-owned businesses before goodwill amortisation and exceptional items £1.6m higher at £9.6m. Profits were further affected by an increase of £1.4m in the SSAP 24 pension charge compared with the previous year.

The results summarised by individual businesses are set out in Note 1 on the Financial Statements. Despite the fall in turnover of the wholly-owned businesses there was an improvement in gross margin and operating profit margin, both up 1%.

Sales to overseas customers of £160.0m, including sales by overseas businesses of £109.1m, represented 87.8% of total Group turnover. UK exports of £94.5m produced a net benefit to the UK balance of payments of £82.6m, after deducting imports of £11.9m. Turnover by region is shown in the chart on page 14.

Profitability

Higher operating profit and lower operating assets improved the return on operating assets to 12% (2003 8.7%). The operating profit return on sales rose from 3.6% to 4.4%.

Accounting policies

The policies applied in preparing the Financial Statements are set out on pages 32 and 33. 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 3% of annual turnover, and to the assessment of the risk of stock obsolescence. The appropriateness of these policies is reviewed regularly.

Going concern

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

Exceptional items, terminated business and goodwill amortisation

Exceptional items included redundancy costs of £1.1m incurred as the Medical business reduced its overseas cost base during the year as well as the costs of £0.5m incurred by the Cambridge operation of Superconductivity prior to the spin out of ARKeX Limited, an independent and separately financed exploration gravity gradiometer business.

Amortisation of goodwill amounted to £0.7m, an increase over last year, reflecting no further benefit in the period from negative goodwill amortisation that had arisen from the acquisition of part of Vickers Medical in December 1997, now fully depreciated, and the additional positive goodwill amortisation following the VG Semicon acquisition in the year. The average period over which goodwill is being amortised is seven years.

Acquisitions and disposals

The Group's 49% shareholding in Oxford Magnet Technology Limited (OMT) was sold to Siemens plc in December 2003 for £8.5m. In addition a further £0.6m was received in relation to related technology. Software licence income of £0.4m was recognised on the date of the transaction, with the remaining £0.2m for associated support and maintenance being recognised over the support period. The profit on disposal after goodwill was £6.6m. Prior to disposal the Group's interest in the joint venture's loss before tax was £0.3m. The Group continues to provide under contract various goods and services to Siemens for the MRI market.

Orders

2004	£177.9m
2003	£185.7m
2002	£189.4m

Continuing wholly owned operations.

Turnover

2004	£182.3m
2003	£186.6m
2002	£211.9m

Continuing wholly owned operations.

Operating profit

2004	£8.0m
2003	£6.8m
2002	£6.7m

Continuing wholly owned operations before exceptional items, terminated business and goodwill amortisation.

Return on operating assets

2004	12.0%
2003	8.7%
2002	7.5%

Continuing wholly owned operations before exceptional items, terminated business and goodwill amortisation.

In October 2003 the Group acquired the business and assets of VG Semicon, a leading supplier of molecular beam epitaxy equipment used in the mass production of electronic devices for the latest generation of mobile and cellular phones. A cash consideration of US\$0.3m was paid with a further agreed consideration of US\$0.2m payable in the next two years.

In March 2004 the Group acquired 24% of the ordinary share capital of ARKeX Limited, the spin out from the Superconductivity business referred to above. As part of the deal, the Group has licensed intellectual property to ARKeX Limited.

In addition during the year the Group increased its stake in Target Systemelectronic GmbH from 20% to 25% and subscribed for 25% of the issued share capital of Target Systemelectronic Inc on its formation.

Interest

Net interest payable of the wholly-owned businesses was £0.1m, down from £1.2m last year, reflecting the improved net cash position and the transfer of surplus funds from the USA to the UK following the restructuring of the financing of the USA operations, thereby eliminating the cost of the dollar swap arrangement which had been in place for some years.

Taxation

The underlying tax rate on continuing profits before exceptional items was 34% (2003 37%). The key factors influencing the rate of tax are the UK corporate tax rate of 30% and higher tax rates in overseas jurisdictions such as USA, Germany and Japan. The Group has significant tax losses in the UK to set off against future taxable profits. A deferred tax asset of £5.2m has been recognised against timing differences and unused capital allowances leaving a further £5.5m still unrecognised.

Employees

The number of employees at 31 March 2004 was 1,507 compared with 1,560 at 31 March 2003, a reduction of 3.4%.

Exchange rates

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

Cashflow

The Group began the year with net cash of £3.3m and ended the year with net cash of £20.7m, an inflow of £17.4m. Principal contributors to the inflow were £8.5m related to the disposal of our shares in OMT and the reduction in stock of £8.0m.

Balance sheet

The year end net cash position of £20.7m was made up of cash and short term deposits of £23.2m offset by bank loans and overdrafts of £2.5m.

Net operating assets reduced by £12.0m to £66.6m. This was primarily due to a reduction in net working capital, excluding net cash, taxation and accrued dividends which decreased by £9.0m to £34.0m. Overall the net working capital to sales ratio reduced from 22.9% to 18.7%. Year end stocks reduced by £8.0m. There was also a significant improvement in debt collection, with the number of days debt outstanding falling to 54 days from 66 days.

An analysis of tangible fixed assets is shown in Note 14 on the Financial Statements. The decrease in net book value of fixed assets of £3.0m 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.

Pre-tax profit

2004	£11.9m
2003	£2.4m
2002	£12.0m

Net cashflow from operating activities

2004	£17.8m
2003	£14.9m
2002	£6.6m

Net cash/(borrowings)

2004	£20.7m
2003	£3.3m
2002	£(4.0)m

Contingent liability

During the year the contingent liability highlighted last year in relation to one of the new Analytical products for a specific application has been addressed following industry discussions with the government departments of the country concerned. It is now considered most unlikely a future loss will arise from this matter. As a result this issue is no longer referred to in Note 32 on the Financial Statements in respect of contingent liabilities.

Pension schemes

The Company continues to account for pensions in accordance with SSAP 24. However, the combined deficit of the two largest defined benefit pension plans under the FRS 17 accounting standard has increased from £23m to £26m after deducting the related deferred tax asset. The increase in asset values in the year has been more than offset by the increase estimated for liabilities following a rise in assumed salary growth and pension increases and the adoption of revised mortality tables. The principal (UK) scheme was closed to new members in 2001 and contributions from both the Company and employees were increased last year in line with the actuary's recommendation in the March 2003 Actuarial Valuation. These new contribution rates were set with the expectation that the deficit would be recovered over the average working life of members of sixteen years.

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 £32.4m (or the foreign currency equivalent) available to the Group at 31 March 2004, the Group had contractually committed unsecured facilities of £15.0m at the financial year end. At 31 March 2004 none of the committed facilities and only £2.5m of the uncommitted facilities were in use. There is no known restriction on the Group's ability to transfer funds within the organisation.

Following the sale of the shareholding in OMT, the Company is no longer contracted by guarantee to secure 49% of the external borrowings of OMT.

Treasury management and policy

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

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

Given the high level of net exports, the Group faces currency exposures on trading transactions undertaken by its UK subsidiaries in foreign currencies. 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 31 on the Financial Statements shows the value at 31 March 2004 of contracts for forward sale of the major currencies in which the Group trades.

Group turnover by region

2004	Rest of America	£76.0m
2003		£78.3m
2002		£83.4m
2004	Japan	£25.3m
2003		£23.2m
2002		£28.4m
2004	UK	£22.3m
2003		£23.2m
2002		£26.5m
2004	Germany	£10.0m
2003		£9.6m
2002		£16.6m
2004	Rest of Europe	£27.7m
2003		£28.8m
2002		£31.7m
2004	Rest of Far East	£17.1m
2003		£17.6m
2002		£18.8m
2004	Rest of World	£3.9m
2003		£5.9m
2002		£6.5m

Continuing wholly owned operations.

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

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

Earnings and dividends

The profit on ordinary activities before tax of £11.9m included a profit of £7.2m from continuing operations, exceptional losses of £1.6m and a net combined profit on disposal and operating losses of OMT of £6.3m. After a total tax charge of £1.9m the net profit for the financial year was £10.0m.

The Group's proposed final dividend of 6.0p per share (2003 6.0p), payable on 29 October 2004, makes a total dividend for the year of 8.4p and remains the same as last year. Ignoring exceptional items, the terminated business and OMT, the total dividend for the year was covered 1.4 times by earnings, before goodwill amortisation.

Share price

The closing mid-market price of the ordinary shares at the end of the financial year was £2.38, compared with £1.20 at the beginning of the year, an increase of 98%. The highest and lowest prices recorded in the financial year were £2.425

and £1.20 respectively. At the close of trading on 2 June 2004 the share price was £2.35.

Shareholders' funds and share capital

Shareholders' funds at the year end were £92.9m, or £1.93 per share. There were no net borrowings. After provision for the proposed final dividend, distributable reserves of the Company were £100.7m.

There was no change in the capital structure of the Company during the year. At the year end the issued share capital was 48.1 million ordinary shares of 5p each.

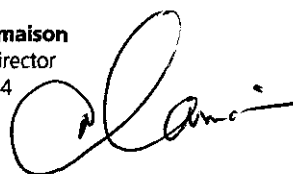
164,063 new ordinary shares were issued in the year under the Company's Savings Related Share Option Scheme representing 0.34% of the total issued share capital. Under various share option schemes, set out in Note 25 on the Financial Statements, a further 3.5 million new shares may be issued if performance conditions, where applicable, are met and the options are exercised. This would give a maximum increase in issued share capital of 7.3%. In addition 1.1 million issued shares are held in trust in relation to the share option schemes.

International Accounting Standards ('IFRS')

The Group has been assessing the changes that will be required under IFRS in order to plan the transition from UK Accounting Standards and to be in a position to report its results under IFRS for the year to 31 March 2006. A transition plan has been presented to and approved by the Audit Committee. Key areas of focus include intangible assets and financial instruments.

Martin Lamaison

Financial Director
3 June 2004



Group turnover by sector

2004	Life sciences	£99.8m
2003		£94.1m
2002		£102.1m
2004	Scientific research	£35.5m
2003		£46.8m
2002		£43.7m
2004	Industrial processes	£36.1m
2003		£35.2m
2002		£39.1m
2004	Semiconductors and communications	£10.9m
2003		£10.5m
2002		£27.0m

Continuing wholly owned operations.

Earnings per share

2004	11.4p
2003	7.9p
2002	9.6p

Continuing wholly owned operations before exceptional items, terminated business and goodwill amortisation.

Dividends per share

2004	8.4p
2003	8.4p
2002	8.4p

Net assets per share

2004	193p
2003	186p
2002	199p

Chairman

Nigel Keen, 57, Non-Executive Director, joined the Board in 1999. He is Chairman of The Laird Group PLC, Axis-Shield plc and Deltex Medical Group plc.

Executive Directors

Andrew Mackintosh, 48, 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.

Non-Executive Directors

Peter Morgan, 68, Independent Non-Executive Director, joined the Board in 1999. He is Chairman of Technetix plc and 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.

Deputy Chairman

Professor Sir Michael Brady, 59, Senior Independent Director, joined the Board in 1995 and is BP Professor of Information Engineering at Oxford University. He is a founding Director of Guidance and Control Systems Limited, and Mirada Solutions Limited, now part of CTI Molecular Imaging (NASDAQ listed) and a Director of ISIS Innovation Limited.

Martin Lamaison, 60, 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.

Bernard Taylor, 47, Independent Non-Executive Director, joined the Board in 2002 and is Vice Chairman of JP Morgan plc. He is a member of The Council of the University of Oxford, Chairman of ISIS Innovation Limited, and a Non-Executive Director of TI Automotive Limited. He is also a fellow of the Royal Society of Chemistry.

Directors

The following Directors served throughout the year except as noted:

- N J Keen** FCA, Chairman
- M Brady** FEng FRS, Deputy Chairman
- A J Mackintosh**, Chief Executive
- M Lamaison** FCA, *Financial Director and Company Secretary*
- P J Hill** (until 31 May 2004)
- P W L Morgan**
- B J Taylor**

Board Committees

Audit: Peter Morgan, Chairman; Mike Brady; Peter Hill (until 31 May 2004); Nigel Keen (until 1 April 2004); Bernard Taylor

Remuneration: Nigel Keen, Chairman; Mike Brady; Peter Hill (until 31 May 2004); Peter Morgan

Nomination: Nigel Keen, Chairman; Mike Brady; Peter Hill (until 31 May 2004); Peter Morgan; Bernard Taylor

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.

Honorary President

Sir Martin Wood OBE FRS Hon FEng DL

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Oxford Instruments plc Reports and Financial Statements 2004



The Directors present their Report and the Financial Statements of Oxford Instruments plc for the year ended 31 March 2004.

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 2 and 3, the Operating Review on pages 4 to 7 and the Financial Review on pages 12 to 15.

Acquisitions and disposals

Details of acquisitions and disposals are set out within the Financial Review on pages 12 to 15 and within Notes 16 and 17 on the Financial Statements.

Results and dividends

The results for the year are shown in the Group Profit and Loss Account on pages 34 and 35. 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 26 March 2004 makes a total of 8.4p per ordinary share for the year (2003 8.4p). Subject to shareholder approval, the final dividend will be paid on 29 October 2004 to shareholders registered at close of business on 1 October 2004.

Directors

Profiles of all the Directors at the date of this report, including the Non-Executive Directors, appear on page 16. All the Directors served on the Board for the whole year under review. Since the year end Peter Hill resigned as a Director. Peter Hill resigned as a Director since he does not meet the criteria for independence set out in the new Combined Code because he and Nigel Keen are both Directors of the same UK-listed public company.

Nigel Keen and Mike Brady who retire by rotation, offer themselves for re-election at the 2004 Annual General Meeting. Neither of the Non-Executive Directors offering themselves for re-election has a service contract with the Company or any of its subsidiaries. Their existing letters of appointment for three years terminate on 25 February 2005 and 31 July 2004 respectively. It is the Board's intention to offer both Nigel Keen and Mike Brady a further three year term of appointment on the expiry of their current term. Nigel Keen's appointment for a further three year term, effective from 25 February 2005 will be subject to retirement by rotation.

Nigel Keen was first elected at the Annual General Meeting in 1999 having been appointed to the Board as an Independent Non-Executive Director in February of that year. It is the Board's intention to offer Nigel Keen a further three year term of appointment on the expiry of his current term. Having been

Chairman during a substantial reorganisation of the Company, the Board believes he will be best placed to contribute to the development and implementation of the next stage of the Company's Strategy.

Mike Brady first became a Non-Executive Director of the Company in 1995; accordingly the Board has considered whether it is appropriate in view of his length of service that he continue in office and if so whether he should be considered to be independent. Having taken into account his technical expertise as the only Non-Executive Director from a scientific profession; the value of that expertise to Board discussions; the strength of his professional and business interests unrelated to the Group or other members of the Board; his continual constructive probing from the technical aspect of proposals considered by the Board; the composition of the Board generally and the fact that he qualifies as independent in all other criteria referred to in the Combined Code, the Board has concluded that it is appropriate that he continue in office and that he should properly be considered to be independent. This year, Mike Brady retires by rotation under the Articles of Association. In subsequent Annual General Meetings, in addition to other Directors retiring by rotation, he will retire in accordance with the provisions of the Combined Code and may offer himself for re-election.

Directors' interests

The beneficial interests of the Directors in the Company's share capital, all in fully paid up shares at 31 March 2004 are shown below. There were no changes in the Directors' holdings between the year end and 3 June 2004. Details of share options are shown in the Directors' Remuneration Report on pages 25 to 30.

	2004 Shares	2003 Shares
Mike Brady	2,500	2,500
Peter Hill	8,000	8,000
Nigel Keen	45,000	45,000
Martin Lamaison	48,751	48,621
Andrew Mackintosh	58,752	57,318
Peter Morgan	10,000	10,000
Bernard Taylor	190	190

No Director was beneficially interested in the shares of any subsidiary company at any time during the year. Nor did any Director, in the year to 31 March 2004, have a material interest in any contract of significance with the Company or any of its subsidiaries.

Share capital

During the year 164,063 new shares were issued (2003 24,734) under the Company's Savings Related Share Option Scheme. Details are set out in Note 25 on the Financial Statements.

Substantial shareholdings

The following are beneficial interests of 3% or more and any non-material interests of 10% or more, of which the Directors have been notified, of the Company's issued ordinary share capital, the only class of voting capital, at 3 June 2004:

	Shares 000	% of total
Aberforth Partners	11,034	23.0
Co-operative Insurance Society Limited (forms part of Aberforth Partners holding)	2,413	5.0
Britel Fund Trustees Limited (of which 5.7% forms part of Aberforth Partners holding and 5% forms part of Hermes Pension Management holding)	5,274	11.0
Hermes Pension Management	2,404	5.0
Devon County Council (forms part of Hermes Pension Management holding)	2,404	5.0
Post Office Pension Trustees Limited* (forms part of Hermes Pension Management holding)	2,404	5.0
Nottinghamshire County Council (forms part of Hermes Pension Management holding)	2,404	5.0
Railways Pension Trustee Company Limited (of which 4.9% forms part of Hermes Pension Management holding)	2,946	6.1
Sir Martin and Lady Audrey Wood	3,644	7.6
GAM London Limited	2,959	6.1
HBOS plc	1,906	4.0
Fleming Mercantile Investment Trust Plc	1,547	3.2
Legal & General	1,475	3.1

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

Payment of suppliers

The Group does not follow a standard payment practice but agrees terms and conditions for its business transactions with each of its suppliers. Payment is then made to these terms, subject to the terms and conditions being met by the supplier. Trade creditors of the Company and the Group's UK subsidiaries at 31 March 2004 were equivalent to 35 days' and 45 days' purchases respectively, based on the average daily amount invoiced by suppliers to the Company and Group's UK subsidiaries during the year.

Annual General Meeting

The Notice of the Annual General Meeting to be held on 21 September 2004 is set out on pages 60 to 62 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 2004



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 businesses, 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 the Group's 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 Committee to share knowledge and best practice.

All businesses within the Group recognise the importance of keeping all employees updated on health and safety issues, and bringing to the notice of their employees a written statement of their policy relating to health and safety at work. In addition employees are kept informed of current issues through staff notice boards and bulletins. Employees are encouraged to submit observations or concerns relating to improvements that can be made in work conditions and practices. In order to maintain high standards throughout the Group training courses are run *focussing in particular on manual handling training 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.

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

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

Environmental policy

The Board is responsible overall for environmental policy and procedures. Responsibility for implementing and maintaining effective environmental practices is assigned to the operational management teams. As with all businesses the Group's products, activities and services impact on the environment. Oxford Instruments is committed to taking steps to reduce adverse impacts and thereby deliver continual improvement in its environmental performance. Systems are in place to meet the requirements of all applicable environmental laws and regulations, and the Group seeks to reduce waste and environmental impact by the adoption of appropriate practices in its operations.

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

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

Social and ethics policy**Employment**

Ability and contribution are the determining factors in the selection, training, career development and promotion of all employees. The Group is committed to continuing professional development and to managing actively individual and team performance and developing and valuing core skills. Having the right skills mix ensures that the business grows through producing innovative products that meet or exceed customers' expectations.

It is the Group's 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 worldwide.

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

Ethics

An open culture is fostered in which individual's views and contributions are encouraged and respected. The aim is to ensure there are equal opportunities for all employees with no discrimination on account of race, age, gender, sexual orientation, disability, political or religious beliefs. A confidential reporting process is in place through which our employees can raise any concerns they may have with any aspect of Company or fellow employee 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 Group businesses have contributed and supported local charities and community activities. Total donations made by the Group during the year amounting to £23,000 (2003 £29,000) were made to a range of community organisations. It is the Group's policy to prohibit donations to any political party or similar organisation and therefore no donations to political parties were made.

Employees are encouraged to contribute to local charities using the Give-As-You-Earn scheme and the Company makes an additional donation to the chosen charities. The Group also regularly provides work placement experience for students and in the year ended 31 March 2004 spent £77,000 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 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 2004



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 Financial Reporting Council published a new Combined Code on Corporate Governance ("the new code") which applies to the Company for the year commencing 1 April 2004 and replaces the 1998 Combined Code. A full review of the new code has been undertaken and where appropriate steps have been taken to change policies and procedures to comply with the new code.

Compliance

During the period under review, the Company has applied the principles set out in the 1998 Combined Code on corporate governance and has complied throughout the year with each of the provisions set out in Section 1 of the 1998 Combined Code, except where it has been explained in the Directors' Remuneration Report on pages 25 to 30 in respect of provisions B.1.6 and B.1.7. These provisions relate to the inclusion of a limited amount of cash bonuses for pension purposes and the length of notice in service contracts.

Principles of corporate governance

Board of Directors

The Board's principal responsibility is to look after and act in the best interests of the shareholder group as a whole. The Board establishes aims and objectives for the Group and agrees the strategic directions and plans and annual budget proposed by the Group's senior management. The Board is also responsible for the exercise of proper and appropriate corporate governance for the Group and for ensuring that there are effective systems of internal control in place. There is a schedule of matters reserved for the Board's decision, covering matters of the structure of the Board, operations and financial matters. There is also a written statement as to the division of responsibility between the Chairman and the Chief Executive, with day-to-day management of the business delegated to the Chief Executive.

The Board comprises the Chairman and Deputy Chairman (both Non-Executive Directors), two Executive Directors and two further Non-Executive Directors. All the Non-Executive Directors, are considered by the Board to be independent. 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.

Nigel Keen, the Chairman, was appointed to the Board as an independent Non-Executive Director in 1999 and was still considered to be independent when appointed Chairman of the Board in July of that year, as recommended by the new Code. The Deputy Chairman, Mike Brady, is also the Senior Independent Non-Executive Director. Mike Brady is to continue to hold these two positions after the renewal of his term of appointment on 1 August 2004. At that time Mike Brady will have served the Company as a Non-Executive Director for nine years, however the Board believe that in action and in judgement Mike Brady continues to bring independence to bear on issues of strategy, performance and resources, including key appointments and standards of conduct.

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 also delegates certain of its responsibilities to Committees which are described below. Membership and Chairmanship of the Committees are determined by the Board. All Directors receive Board Papers in advance of each meeting which contain appropriate information relating to matters for discussion at the meeting. During the year the Chairman met once with the Non-Executive Directors without the Executive Directors present. In future years such meetings will take place at least twice a year. In addition the Senior Independent Director met the Non-Executive Directors without the Chairman present once during the year.

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 for all new Directors.

In the year ended 31 March 2004 the Board commenced a formal performance review process the results of which have been circulated to and discussed by all Directors. In the current financial year this evaluation process will be extended to include the Committees of the Board and individual Directors.

During the year the Board has met eleven times, of which Mike Brady was unable to attend two meetings and Bernard Taylor was unable to make one meeting, an absence which was known about in advance of his appointment as a Director. In such instances the Director consults with the Chairman prior to the meeting and is briefed by the Chairman after the meeting.

Board Committees

Membership of Board Committees is given on page 16. The written Terms of Reference of the Committees detailed below are available from the Company on request and will be on display at the Annual General Meeting.

During the year the Audit Committee, chaired by Peter Morgan, comprised the Chairman and all the Non-Executive Directors. With effect from 31 March 2004 Nigel Keen stood down as a member of the Committee. The members of the Committee are appointed by the Board and the membership of the Committee is reviewed regularly. The Board ensures that at least one member has recent and relevant financial experience. Only members of the Committee have the right to attend Committee meetings. Others such as the Chief Executive and Financial Director are invited to attend all or part of any meeting as required. The external auditors are invited to attend meetings of the Committee on a regular basis, including once at the planning stage before the audit and once after the audit at the reporting stage. At least once a year the Committee meets with the external auditors without the Executive Directors present. The Audit Committee met five times in the year ended 31 March 2004. Both Peter Hill and Bernard Taylor were unable to attend one meeting.

The Audit Committee is responsible for monitoring the integrity of the financial statements of the Company and the Group. The Committee reviews the Group's financial statements and internal financial controls and considers the scope and planning of internal and external audits and the findings of the audits.

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

- reviewing the interim and annual financial statements before submission to the Board, including consideration of the significant financial issues and judgements which they contain;
- 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;
- monitoring the adequacy and effectiveness of the internal financial controls and compliance procedures; and
- reviewing the Company's arrangements for employees to raise concerns about possible wrong doings in financial reporting or other matters.

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. 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 fees for these non-audit services in the year have 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 6 on the Financial Statements.

The Remuneration Committee, chaired by Nigel Keen, met four times in the year ended 31 March 2004 at which there was full attendance on all occasions. The members of the Committee are appointed by the Board and the membership of the Committee is reviewed regularly. Under its terms of reference the Chairman of the Board may be chairman of the Committee. The Remuneration Committee is responsible for recommending to the Board the remuneration packages for Executive Directors and the bonus and share option strategy for the Group's executive management. The Chairman, Nigel Keen, who fulfilled the independence criteria at the time of his appointment as set out in the new Code on Corporate Governance, is currently Chairman of the Committee as the Board considers it essential that the Chairman be involved in setting remuneration policy. The Board as a whole is responsible for fixing the remuneration of the Non-Executive Directors, including the Chairman.

Only members of the Committee have the right to attend Committee meetings. Others such as the Chief Executive are invited to attend all or part of any meetings as and when required. In particular the Chief Executive will report to the Committee on the performance of other Executive Directors and on significant group-wide

changes in salary structure and terms and conditions affecting other employees at senior executive level. Further details of the Remuneration Committee are included in the Directors' Remuneration Report set out on pages 25 to 30.

The Nomination Committee currently comprises of the Chairman and all the Non-Executive Directors. Chaired by Nigel Keen the Committee met once during the year at which there was full attendance, and 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 whether the Non-Executive Director's appointment should be renewed for a further three years at the end of each three year term. In doing so the Committee takes into account the need to refresh the Board as required by the new Code.

In addition there is an Administration Committee which consists of any two or more Directors and deals with items of a routine and administrative nature.

Shareholder relations

The Chief Executive and Financial Director meet regularly with shareholders to develop an understanding of their views and to communicate and explain the Group's strategy and performance. The Chairman and Senior Independent Director make themselves available.

All shareholders are invited to attend and participate in the Annual General Meeting (AGM). Shareholders are invited to ask questions and are given the opportunity to meet the Directors informally after the meeting. The number of proxy votes cast for, against or in abstention on the resolutions are reported to the meeting after each resolution has been dealt with on a show of hands and, following the 2004 annual General Meeting, will be published on the Company's website (www.oxford-instruments.com).

All major announcements are made available promptly on the Company's website.

Risk management

Within the Group there is an ongoing process for identifying, evaluating and managing the significant risks faced by the Group.

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

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

Internal control

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

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 (as referred to above).

It is the Group's aim to maintain effective 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 and non-financial information within the business for both internal and external use.

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 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 Financial Director;
- the Board reviews strategic issues and options formally once a year during the annual strategic planning process and during the year as appropriate;
- annual budgets are prepared for each of the Group's businesses which include monthly figures for turnover, profit, capital expenditure, cash flow and borrowings; the budgets are reviewed through the Group management structure and result in a Group financial budget which is considered and approved by the Board;
- the businesses prepare monthly management accounts which compare the actual operating result with both the budget and the prior year; the businesses also prepare rolling reforecasts for orders, turnover, operating profit and cash covering at least the next six months in detail and from time to time a further six months in summary; both are reviewed by the Board monthly;
- the Board approves all acquisition and divestment proposals, and there are established procedures for the planning, approval and monitoring of capital expenditure;
- for all major investments the performance of the first 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; the process requires that any serious weakness is reported immediately to members of the Audit Committee; no such weaknesses were identified in the year;
- 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. 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, which met four times during the year, consisted of Nigel Keen (Chairman), Mike Brady, Peter Morgan and Peter Hill (until 31 May 2004), all independent Non-Executive Directors. Nigel Keen, who as Chairman fulfilled the independence criteria at date of appointment, as set out in the new Code on Corporate Governance, is a member of the Committee because the Board considers it essential that he be involved in setting remuneration policy. The members of the Committee are appointed by the Board and the membership of the Committee is reviewed regularly. The Chairman of the Committee may be the Chairman of the Board.

The principal function of the Committee is to define and communicate to the Executive Directors the Company's policy on the remuneration, benefits and terms of employment for each Executive Director. 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 share options and general increases in salaries and bonus arrangements for staff and the Executive Directors. Over the past year the Committee appointed New Bridge Street Consultants to provide independent external professional advice on Executive Directors' remuneration and option schemes. 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.

Remuneration policy

The Remuneration Committee has established a policy on the remuneration of Executive Directors and the Board has established a policy for the Non-Executive Directors for the current and subsequent financial years. The Committee regularly seeks external advice to benchmark policy and procedures against best-in-class.

Executive Directors

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

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

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, as the current policy was not in place at the time their contracts commenced. 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. Since the year end, in order to comply with corporate governance standards, steps have been taken to reduce to one year the two year notice periods presently applicable under the service contracts of the Executive Directors. The notice periods in the new service contracts will reduce progressively over the year to 30 June 2005, after which the agreements will be terminable on one year's notice.

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

Non-Executive Directors

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

Executive Directors' remuneration

Basic remuneration

The Executive Directors receive base salary, annual performance awards, pensions and other benefits, and long term performance awards. Base salaries, benefits and performance awards of the Executive Directors are reviewed annually by the Remuneration Committee. Base salaries are determined with reference to an appropriate comparator group of companies, which is reviewed annually. Consideration is also given to the Director's experience, performance and responsibilities. Benefits comprise provision of a car allowance, life, disability and health insurance, participation in a bonus scheme and a pension. A contributory pension at the age of sixty of up to two thirds of pensionable salary is provided, related to the length of service, together with a dependants pension on death in service or retirement.

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

	Salary £000	Benefits £000	Performance related remuneration £000	2004 £000	Total remuneration 2003 £000
Andrew Mackintosh	250	13	125	388	283
Martin Lamaison	165	13	57	235	199
Total	415	26	182	623	482

Annual Performance Incentive Bonus

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

The Executive Directors' bonus scheme for the year ended 31 March 2004 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 50% of base salary and Martin Lamaison 35% of base salary.

Pensions

Both Executive Directors are members of the Oxford Instruments Pension Scheme and the Oxford Instruments 1998 Executive Pension Scheme. The Government's proposed changes to the tax regime applying to occupational pension schemes to take effect from 6 April 2006 are being reviewed.

Oxford Instruments Pension Scheme

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

With effect from 1 April 2004 the Company contributed to the scheme at a rate of 14.5% of pensionable salary. Employees can choose to contribute at rates of 6.0%, 7.0%, 9.5% or 10.5% of pensionable salary, with the higher rates earning benefits at the faster rate of 2% per year (1/50ths) of service instead of 1.67% (1/60ths).

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 3% per year on pension earned before 1 April 1997 and a maximum of 5% per year thereafter, subject to any applicable statutory requirements.

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

Following the closure of the Company's defined benefit scheme to new members in April 2001, any Executive Directors appointed now would be offered membership of the Oxford Instruments Stakeholder Plan, a defined contribution scheme. Under this scheme only base salary is pensionable.

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 2004 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	48	19	20	13	11	93
Martin Lamaison	60	19	14	6	4	66
		2004 £000	Transfer value of accrued pension 2003 £000	Change in transfer value over year less member contributions £000		
Andrew Mackintosh		1,002	757	225		
Martin Lamaison		1,190	1,028	148		

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.

Company contributions to the Oxford Instruments 1998 Executive Pension Scheme during the year were £16,000 (2003 £15,000) for each of the Executive Directors.

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 base salary. However, in exceptional circumstances the limit is three times base salary, provided that to the extent an

individual is granted options in excess of the standard limit, there will be a corresponding reduction in the number of shares under options granted in the next two years. For the purpose of calculating these limits, the Company's share price will be averaged over the three months before the options are granted.

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

Performance conditions

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 TSR. This was considered consistent with the recovery phase of the business. It was intended that over time the performance conditions would revert to a lower target, appropriate to a more stable business. For financial years after 2003 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 both TSR and EPS target growth performance achieved as follows:

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

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

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

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

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

The performance conditions for options to be granted in 2004 have been set by the Remuneration Committee as set out below:

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

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

SELTIS

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

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

Performance conditions

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

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

SELTIS options granted since the establishment of the 2001 ESO scheme

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

Individual options

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

Performance conditions

Individual options granted in March 1998

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

Individual options granted in December 2001

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

SAYE options

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

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

	Scheme	2004	Number of options during the year			2003	Exercise price	Date for earliest exercise	Date for latest exercise
			Granted	Exercised	Lapsed				
Andrew Mackintosh	SAYE	280	-	-	-	280	£1.35	01/02/06	31/07/06
	SAYE	-	-	(654)	-	654			
	SAYE	-	-	-	(1,201)	1,201			
	SAYE	-	-	(780)	-	780			
	SAYE	-	-	-	(1,809)	1,809			
	2001 ESO	217,097	217,097	-	-	-	£1.88	15/07/06	14/07/13
	2001 ESO	148,678	-	-	-	148,678	£2.22	15/07/05	14/07/12
	2001 ESO	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			
	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			
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	
Martin Lamaison	SAYE	636	636	-	-	-	£1.74	01/02/07	31/07/07
	SAYE	280	-	-	-	280	£1.35	01/02/06	31/07/06
	SAYE	568	-	-	-	568	£1.87	01/02/05	31/07/05
	SAYE	-	-	(130)	-	130			
	SAYE	1,716	-	-	-	1,716	£1.77	01/02/05	31/07/05
	2001 ESO	154,340	154,340	-	-	-	£1.88	15/07/06	14/07/13
	2001 ESO	105,726	-	-	-	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			
	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.

Andrew Mackintosh and Martin Lamaison respectively realised gains of £1,053 and £113 on exercise of share options during the year to 31 March 2004 (2003 £nil). Andrew Mackintosh and Martin Lamaison have 44,000 and 33,000 options respectively under SELTIS capable of exercise. In addition Andrew Mackintosh has 25,000 options under the 1995 ESO scheme technically capable of exercise, although currently the option price is above the current market price.

Outside appointments

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

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

Independent Non-Executive Directors

Chairman

Under an arrangement between the Company and Imperialise Limited, Nigel Keen is retained to act as chairman of the Company. Nigel Keen's fees were £66,000 (2003 £66,000) for his services for which he must account to Imperialise Limited. In addition, since July 2003, Imperialise Limited has been paid a sum equivalent to the National Insurance on these fees of £6,300 (£8,400 per annum). Imperialise Limited is responsible for the cost of National Insurance on payments to Nigel Keen whereas National Insurance payments in respect of the other Non-Executive Directors are made directly to the UK Inland Revenue and therefore not included in the table below. Nigel Keen's initial period of appointment as a Non-Executive Director was for three years commencing 25 February 1999, subject to retirement by rotation. He became Chairman on 27 July that year. His term of appointment was extended by the Oxford Instruments Board for a further three years commencing 25 February 2002 subject to retirement by rotation. The appointment may be terminated by either party giving not less than six months notice. It is the intention of the Board to offer Nigel Keen in February 2005 a further three year term of appointment, again subject to retirement by rotation.

Non-Executive Directors

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

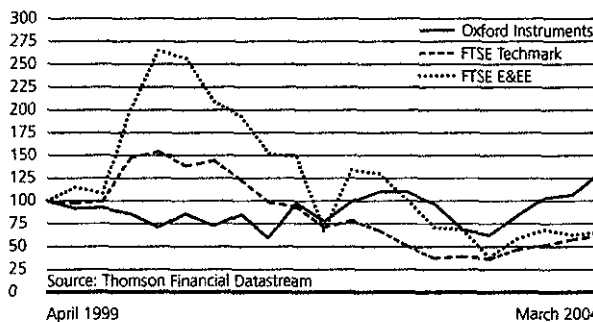
On 31 July 2004 Mike Brady will have served as a Non-Executive Director for nine years. Upon the recommendation of the Nomination Committee, it has been agreed by the full Board, to extend Mike Brady's term of appointment by a further three years commencing 1 August 2004. This appointment is to be subject to annual approval by shareholders.

Remuneration of the Chairman and Non-Executive Directors:

	2004 £000	2003 £000
Nigel Keen, Chairman	72	66
Mike Brady	25	25
Peter Hill	25	25
Peter Morgan	25	25
Bernard Taylor	25	9
Total	172	150

Performance graph

The graph below shows for the five years ended 31 March 2004 the Total Shareholder Return on a holding of the Company's ordinary shares compared with a hypothetical holding of shares made up of shares of the same kind and number as those by reference to which the FTSE Techmark and FTSE Electronic and Electrical Equipment are calculated. These indices have been chosen as they are considered to be the most appropriate comparator groups for the Company. TSR has been calculated by reference to the relevant share price for each constituent company assuming dividends are reinvested.



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

This report was adopted by the Remuneration Committee at a meeting on 25 May 2004 and has been approved subsequently by the Board for submission to shareholders at the Annual General Meeting to be held on 21 September 2004.

Nigel Keen

Chairman of the Remuneration Committee
3 June 2004

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.

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

We have audited the financial statements on pages 32 to 59. We have also audited the information in the Directors' Remuneration Report that is described as having been audited.

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

Respective responsibilities of Directors and auditors

The Directors are responsible for preparing the Annual Report and the Directors' Remuneration Report. As described above, 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 22 to 24 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 2004 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 2004

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

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 2004. 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, whilst it is considered that joint control exists. During the year ended 31 March 2004, the Group disposed of its interest in its joint venture, Oxford Magnet Technology Limited (see Note 4 on the Financial Statements).

All significant intra-group transactions have been eliminated on consolidation. Under Section 230(4) of the Companies Act 1985 the Company is exempt from the requirement to present its own profit and loss account. The profit for the financial year dealt with in the financial statements of the holding company was £7.6m (2003 £19.0m).

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 where the estimated warranty and installation costs are accrued in full at the same time. Warranty costs are based on the historical relationship between actual costs incurred and the relevant turnover exposure.

The Group has reviewed its policy regarding revenue recognition during the year, in light of the publication of Application Note G to FRS 5: Reporting the Substance of Transactions: Revenue Recognition. The application note does not have a significant effect on the revenue recognition policy of the Group.

Long term contracts

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

Stocks

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

to sell to customers. The majority of demonstration equipment is held within stock. All categories of demonstration equipment are written down during use and then are actively marketed from time to time in order to rotate assets so that as the older items are sold they are replaced, as necessary, by new equipment.

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

Cash and liquid resources

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

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

Research and development and grants

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

Depreciation

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

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

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

Taxation

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

Leases

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

Pensions

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

Foreign currencies and financial derivatives

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

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

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

	Notes	Continuing operations Before exceptional items £ million	Exceptional items and terminated business £ million	Interest in joint venture £ million	2004 £ million
Turnover					
Group and share of joint venture turnover		182.3	–	10.8	193.1
Less share of joint venture turnover	4	–	–	(10.8)	(10.8)
Group turnover (including acquisition of £2.1m)	1,2	182.3	–	–	182.3
Cost of sales	3	(121.8)	–	–	(121.8)
Gross profit		60.5	–	–	60.5
Net operating expenses	3	(53.2)	(1.6)	–	(54.8)
Group operating profit/(loss) before goodwill amortisation		8.0	(1.6)	–	6.4
Goodwill amortisation		(0.7)	–	–	(0.7)
Group operating profit/(loss) (including acquisition profit of £0.5m)		7.3	(1.6)	–	5.7
Share of operating (loss)/profit of joint venture	4	–	–	(0.2)	(0.2)
Total operating profit/(loss)					
Group and share of joint venture		7.3	(1.6)	(0.2)	5.5
Loss on disposal of discontinued business		–	–	–	–
Gain on disposal of joint venture before goodwill	4	–	–	6.8	6.8
Goodwill previously written off against reserves	17	–	–	(0.2)	(0.2)
Profit/(loss) before interest and tax	1	7.3	(1.6)	6.4	12.1
Total net interest payable	5	(0.1)	–	(0.1)	(0.2)
Profit/(loss) on ordinary activities before tax	2,6	7.2	(1.6)	6.3	11.9
Tax on profit/(loss) on ordinary activities	9	(2.4)	0.4	0.1	(1.9)
Profit/(loss) for the financial year attributable to shareholders		4.8	(1.2)	6.4	10.0
Dividends payable to shareholders	11				(3.9)
Retained profit for the financial year	27				6.1
		pence	pence	pence	pence
Earnings per share	12				
Basic earnings per share before goodwill amortisation		11.4	(2.4)	13.7	22.7
Basic and diluted earnings per share		10.0	(2.4)	13.7	21.3
Dividends per share	11				8.4

	Notes	Continuing operations			Sub-total £ million	Discontinued operations £ million	2003 £ million
		Before exceptional items £ million	Exceptional items £ million	Interest in joint venture £ million			
Turnover							
Group and share of joint venture turnover		186.6	–	44.1	230.7	0.7	231.4
Less share of joint venture turnover	4	–	–	(44.1)	(44.1)	–	(44.1)
Group turnover	1,2	186.6	–	–	186.6	0.7	187.3
Cost of sales	3	(126.7)	(0.4)	–	(127.1)	(0.6)	(127.7)
Gross profit/(loss)		59.9	(0.4)	–	59.5	0.1	59.6
Net operating expenses	3	(53.2)	(1.7)	–	(54.9)	(0.8)	(55.7)
Group operating profit/(loss) before goodwill amortisation		6.8	(2.1)	–	4.7	(0.5)	4.2
Goodwill amortisation		(0.1)	–	–	(0.1)	(0.2)	(0.3)
Group operating profit/(loss)		6.7	(2.1)	–	4.6	(0.7)	3.9
Share of operating (loss)/profit of joint venture	4	–	–	1.6	1.6	–	1.6
Total operating profit/(loss)							
Group and share of joint venture		6.7	(2.1)	1.6	6.2	(0.7)	5.5
Loss on disposal of discontinued business	17	–	–	–	–	(1.5)	(1.5)
Gain on disposal of joint venture before goodwill		–	–	–	–	–	–
Goodwill previously written off against reserves		–	–	–	–	–	–
Profit/(loss) before interest and tax	1	6.7	(2.1)	1.6	6.2	(2.2)	4.0
Total net interest payable	5	(1.1)	–	(0.4)	(1.5)	(0.1)	(1.6)
Profit/(loss) on ordinary activities before tax	2,6	5.6	(2.1)	1.2	4.7	(2.3)	2.4
Tax on profit/(loss) on ordinary activities	9	(2.1)	0.4	(0.3)	(2.0)	0.8	(1.2)
Profit/(loss) for the financial year attributable to shareholders		3.5	(1.7)	0.9	2.7	(1.5)	1.2
Dividends payable to shareholders	11						(3.9)
Retained loss for the financial year	27						(2.7)
		pence	pence	pence	pence	pence	pence
Earnings per share	12						
Basic earnings per share before goodwill amortisation		7.9	(3.7)	2.0	6.2	(3.0)	3.2
Basic and diluted earnings per share		7.5	(3.7)	2.0	5.8	(3.2)	2.6
Dividends per share	11						8.4

Group Statement of Total Recognised Gains and Losses year ended 31 March 2004

	2004 £ million	2003 £ million
Profit for the financial year	10.0	1.2
Exchange differences on foreign currency net investments of the Group	(2.8)	(3.3)
Total recognised gains and losses relating to the financial year	7.2	(2.1)

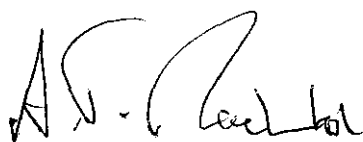
The joint venture has no recognised gains or losses other than the share of loss for the year of £0.2m (2003 profit £0.9m).

	Notes	Group 2004 £ million	Group 2003 £ million	Company 2004 £ million	Company 2003 £ million
Fixed assets					
Intangible assets	13	2.6	2.7	–	–
Tangible assets	14	32.6	35.6	0.6	0.5
Investments					
Subsidiary undertakings		–	–	66.6	66.6
Share of gross assets of joint venture	4	–	20.1	–	–
Share of gross liabilities of joint venture	4	–	(18.3)	–	–
Net investment in joint venture		–	1.8	–	1.6
Other investments		2.4	2.3	1.9	2.3
Total investments	15	2.4	4.1	68.5	70.5
Total fixed assets		37.6	42.4	69.1	71.0
Current assets					
Stocks	19	28.5	36.5	–	–
Debtors	20	58.9	61.1	68.0	50.7
Cash at bank and in hand	21	23.2	6.4	18.9	31.7
		110.6	104.0	86.9	82.4
Creditors: amounts falling due within one year					
Bank loans and overdrafts	22	(2.5)	(3.1)	(0.7)	(16.0)
Other creditors	22	(47.5)	(48.8)	(25.4)	(11.7)
		(50.0)	(51.9)	(26.1)	(27.7)
Net current assets		60.6	52.1	60.8	54.7
Total assets less current liabilities		98.2	94.5	129.9	125.7
Provisions for liabilities and charges	23	(5.3)	(5.3)	(0.1)	–
Net assets employed		92.9	89.2	129.8	125.7
Capital and reserves					
Called up share capital	25	2.4	2.4	2.4	2.4
Share premium account	26	19.0	18.8	19.0	18.8
Other reserves	26	16.0	16.0	7.7	7.7
Profit and loss account	26	55.5	52.0	100.7	96.8
Equity shareholders' funds	27	92.9	89.2	129.8	125.7

The financial statements were approved by the Board of Directors on 3 June 2004 and signed on its behalf by:

Andrew Mackintosh Director

Martin Lamaison Director




	Notes	2004 £ million	2003 £ million
Net cash inflow from operating activities	28	17.8	14.9
Dividend from joint venture		–	2.5
Returns on investments and servicing of finance	29	(0.1)	(1.2)
Taxation		(2.4)	(2.0)
Capital expenditure and financial investment	29	(2.2)	(2.8)
Acquisitions and disposals	16,17	8.3	(0.4)
Equity dividends paid		(3.9)	(3.9)
Cash inflow before management of liquid resources and financing		17.5	7.1
Management of liquid resources	29	(14.8)	(5.8)
Financing	29	0.2	–
Increase in cash in the year		2.9	1.3

Reconciliation of Net Cash Flow to Movement in Net Funds year ended 31 March 2004

	Notes	2004 £ million	2003 £ million
Increase in cash in the year		2.9	1.3
Change in liquid resources	29	14.8	5.8
Translation difference		(0.3)	0.2
Movement in net funds in the year		17.4	7.3
Opening net funds/(debt)		3.3	(4.0)
Closing net funds	30	20.7	3.3

1 SEGMENTAL INFORMATION – ANALYSIS BY WHOLLY-OWNED BUSINESS

	Continuing operations		2004 £ million
	Before exceptional items £ million	Exceptional items and terminated business £ million	
Turnover			
Analytical	58.5	–	58.5
Medical	34.7	–	34.7
Superconductivity	89.1	–	89.1
	182.3	–	182.3
Profit/(loss) before interest and tax			
Analytical	3.7	–	3.7
Medical	0.1	(1.1)	(1.0)
Superconductivity	4.2	(0.5)	3.7
	8.0	(1.6)	6.4
Goodwill amortisation	(0.7)	–	(0.7)
	7.3	(1.6)	5.7
Net operating assets			
Analytical	24.6	–	24.6
Medical	11.8	–	11.8
Superconductivity	30.2	–	30.2
	66.6	–	66.6

	Continuing operations			Discontinued operations £ million	2003 £ million
	Before exceptional items £ million	Exceptional items £ million	Sub-total £ million		
Turnover					
Analytical	61.6	–	61.6	0.7	62.3
Medical	36.3	–	36.3	–	36.3
Superconductivity	88.7	–	88.7	–	88.7
	186.6	–	186.6	0.7	187.3
Profit/(loss) before interest and tax					
Analytical	2.9	(0.8)	2.1	(2.0)	0.1
Medical	(1.3)	(0.7)	(2.0)	–	(2.0)
Superconductivity	5.2	(0.6)	4.6	–	4.6
	6.8	(2.1)	4.7	(2.0)	2.7
Goodwill amortisation	(0.1)	–	(0.1)	(0.2)	(0.3)
	6.7	(2.1)	4.6	(2.2)	2.4
Net operating assets					
Analytical	29.6	–	29.6	–	29.6
Medical	17.7	–	17.7	–	17.7
Superconductivity	31.3	–	31.3	–	31.3
	78.6	–	78.6	–	78.6

Details of the businesses are set out on the inside front cover and on pages 4 to 7. Exceptional items and terminated business are detailed in Note 3. Discontinued operations comprise the On-line Process Systems business sold in October 2002 (see Note 17).

1 SEGMENTAL INFORMATION – ANALYSIS BY WHOLLY-OWNED BUSINESS continued

The net operating assets comprise:

	2004 £ million	2003 £ million
Tangible assets	32.6	35.6
Net working capital	34.0	43.0
Net operating assets	66.6	78.6

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

	2004 £ million	2003 £ million
Net operating assets	66.6	78.6
Current taxation	(1.8)	(0.7)
Deferred taxation	5.2	4.0
Dividends payable	(2.8)	(2.8)
Closing net cash	20.7	3.3
Goodwill	2.6	2.7
Investments	2.4	4.1
Group net assets employed	92.9	89.2

2 SEGMENTAL INFORMATION – GEOGRAPHICAL ANALYSIS

	UK £ million	Continental Europe £ million	North America £ million	Far East £ million	Rest of World £ million	2004 £ million
Group turnover by destination						
Group and share of joint venture	20.5	49.8	76.5	42.4	3.9	193.1
Adjustment for share of trading between Group and joint venture	1.9	–	–	–	–	1.9
Less share of joint venture external turnover	(0.1)	(12.1)	(0.5)	–	–	(12.7)
Group turnover to third parties	22.3	37.7	76.0	42.4	3.9	182.3

Group turnover by origin

Group and share of joint venture	144.9	–	48.2	–	–	193.1
Less share of joint venture turnover	(10.8)	–	–	–	–	(10.8)
Group turnover to third parties	134.1	–	48.2	–	–	182.3

Profit/(loss) before tax by origin

Group operating profit by origin	0.9	–	6.4	–	–	7.3
Share of operating loss of joint venture	(0.2)	–	–	–	–	(0.2)
Exceptional items	(0.7)	(0.7)	(0.2)	–	–	(1.6)
Operating (loss)/profit	–	(0.7)	6.2	–	–	5.5

Gain on disposal of joint venture before goodwill

Goodwill previously written off against reserves

Total net interest payable

Profit on ordinary activities before tax**Net assets employed by location**

	67.8	9.1	14.1	1.9	–	92.9
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2 SEGMENTAL INFORMATION – GEOGRAPHICAL ANALYSIS continued

	UK £ million	Continental Europe £ million	North America £ million	Far East £ million	Rest of World £ million	2003 £ million
Group turnover by destination						
Group and share of joint venture	16.9	84.0	82.6	41.9	6.0	231.4
Adjustment for share of trading between Group and joint venture	6.6	–	–	–	–	6.6
Less share of joint venture external turnover	(0.3)	(45.4)	(4.0)	(0.9)	(0.1)	(50.7)
Group turnover to third parties	23.2	38.6	78.6	41.0	5.9	187.3
<i>Including discontinued operations</i>	–	0.2	0.3	0.2	–	0.7
Group turnover by origin						
Group and share of joint venture	191.2	–	40.2	–	–	231.4
Less share of joint venture turnover	(44.1)	–	–	–	–	(44.1)
Group turnover to third parties	147.1	–	40.2	–	–	187.3
<i>Including discontinued operations</i>	–	–	0.7	–	–	0.7
Profit/(loss) before tax by origin						
Group operating (loss)/profit by origin	(2.2)	–	8.2	–	–	6.0
Share of operating profit of joint venture	1.6	–	–	–	–	1.6
Exceptional items	(2.1)	–	–	–	–	(2.1)
Operating (loss)/profit	(2.7)	–	8.2	–	–	5.5
<i>Including discontinued operations</i>	–	–	(0.7)	–	–	(0.7)
Loss on disposal of discontinued business						(1.5)
Total net interest payable						(1.6)
Profit on ordinary activities before tax						2.4
Net assets employed by location	45.0	12.1	30.4	1.7	–	89.2

3 COST OF SALES, NET OPERATING EXPENSES AND EXCEPTIONAL ITEMS

	Continuing operations Before exceptional items £ million	Exceptional items and terminated business £ million	2004 £ million
Cost of sales	121.8	–	121.8
Distribution costs	28.9	–	28.9
Research and development costs	12.5	0.4	12.9
Administrative expenses	11.1	1.2	12.3
Goodwill amortisation	0.7	–	0.7
Net operating expenses	53.2	1.6	54.8

	Continuing operations Before exceptional items £ million	Exceptional items £ million	Sub-total £ million	Discontinued operations £ million	2003 £ million
Cost of sales	126.7	0.4	127.1	0.6	127.7
Distribution costs	30.9	–	30.9	0.4	31.3
Research and development costs	12.7	–	12.7	–	12.7
Administrative expenses	9.5	1.7	11.2	0.2	11.4
Goodwill amortisation	0.1	–	0.1	0.2	0.3
Net operating expenses	53.2	1.7	54.9	0.8	55.7

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

Cost of sales and net operating expenses of the continuing operations for the year ended 31 March 2004 include in relation to acquisitions: cost of sales £1.3m, distribution costs £0.1m and administration expenses £0.2m.

Exceptional items and terminated business

Exceptional items for the year ended 31 March 2004 relate to continuing operations. They comprise redundancy costs of £1.1m incurred as the Medical business reduced its overseas cost base during the year. The terminated business reflects the costs of the Cambridge based operations of Superconductivity prior to the spin out of ARKeX Limited, an independent and separately financed gravity gradiometer business.

Exceptional items for the year ended 31 March 2003 relate to continuing operations. They comprise redundancy costs of £1.7m across all businesses and £0.4m costs incurred by Medical on the termination of its distribution agreement of its loss making sleep product line.

Research and development costs

In addition to the £12.9m (2003 £12.7m) charged against research and development, no further costs (2003 £nil) have been charged to cost of sales in respect of funded projects. These figures are stated net of grants receivable of £0.1m (2003 £0.4m). The total research and development costs, gross of funding and stock movements, were £13.1m (2003 £13.2m).

4 JOINT VENTURE

On 4 December 2003 the Company sold its 49% interest in Oxford Magnet Technology Limited (OMT) to Siemens plc. The proceeds on disposal were £8.5m giving rise to a gain on disposal of £6.8m, before goodwill previously written off against reserves (see Note 17).

The results of OMT were equity accounted in accordance with FRS 9 for the three months ended 30 June 2003, up to which date it was considered joint control existed, and from this date when it was considered that joint control ceased until the date of disposal, the investment was accounted for as a minority investment in accordance with FRS 2.

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 2004 and show the Group's 49% share of the OMT results for the 3 months to 30 June 2003 and the year ended 31 March 2003:

	2004 £ million	2003 £ million
Turnover	14.0	56.5
Operating (loss)/profit	(0.2)	1.6
Net interest payable	(0.1)	(0.4)
(Loss)/profit on ordinary activities before tax	(0.3)	1.2
Taxation	0.1	(0.3)
(Loss)/profit for the financial year attributable to shareholders (see Note 15)	(0.2)	0.9
Fixed assets	-	3.2
Current assets	-	16.9
Creditors: amounts falling due within one year	-	(17.9)
Net current liabilities	-	(1.0)
Total assets less current liabilities	-	2.2
Provisions for liabilities and charges	-	(0.4)
Net assets employed	-	1.8

The Group share of the joint venture turnover as shown in the Group Profit and Loss Account on pages 34 and 35 has been derived after adjusting for trading between the Group and OMT as follows:

	2004 £ million	2003 £ million
49% of joint venture turnover	14.0	56.5
Less 49% of sales of materials and services by OMT to Group	(1.3)	(5.8)
Less 49% of sales of materials and services by Group to OMT	(1.9)	(6.6)
Group share of joint venture turnover	10.8	44.1

5 TOTAL NET INTEREST PAYABLE

	2004 £ million	2003 £ million
Interest receivable on deposits at short call	0.2	–
Interest payable and similar charges on bank loans and overdrafts	(0.3)	(1.2)
Group net interest payable	(0.1)	(1.2)
Share of joint venture net interest payable	(0.1)	(0.4)
Total net interest payable	(0.2)	(1.6)

The interest payable and similar charges on bank loans and overdrafts includes a £0.2m (2003 £0.6m) 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. This expense ceased during the year following the restructuring of the financing of the USA operations.

6 PROFIT/(LOSS) ON ORDINARY ACTIVITIES BEFORE TAX

	2004 £ million	2003 £ million
Profit/(loss) on ordinary activities before tax is stated after (charging)/crediting:		
Depreciation of tangible fixed assets	(4.7)	(5.5)
Amortisation of Oxford Instruments plc shares held under the Long Term Incentive Plan	(0.2)	(0.2)
Amortisation of goodwill	(0.7)	(0.3)
Net profit/(loss) on disposal of fixed assets	0.1	(0.1)
Rentals payable in respect of operating leases:		
Hire of plant, machinery and vehicles	(1.0)	(1.0)
Other operating leases	(2.3)	(2.4)
Fees paid to auditor and its associates:		
Services as auditors	(0.2)	(0.2)
Non-audit services	–	–
Total fees paid to auditor and its associates	(0.2)	(0.2)

The fees for auditing the parent company's accounts were £48,000 (2003 £50,000). Fees paid to the auditor in respect of non-audit services totalled £13,000 (2003 £10,000). These services related to the provision of tax advice.

7 EMPLOYEES

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

	2004	2003
Production	777	844
Sales and marketing	364	392
Research and development	229	257
Administration	167	181
Total average number of employees	1,537	1,674

7 EMPLOYEES continued

The number of employees at 31 March was:

By country	2004	2003	By business	2004	2003
UK	867	908	Analytical	549	536
USA	438	441	Medical	274	299
Germany	44	46	Superconductivity	684	725
Japan	49	46			
France	27	25	Total employees	1,507	1,560
Italy	15	17			
Spain	15	22			
Rest of world	52	55			
Total employees	1,507	1,560			

The average number of employees for 2003 included 13 people employed in operations that were discontinued by 31 March 2003.

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

	2004 £ million	2003 £ million
Wages and salaries	48.3	52.4
Social security costs	4.8	5.0
Other pension costs	4.2	2.9
Total payroll costs	57.3	60.3

8 PENSIONS

	2004 £ million	2003 £ million
The total pension cost for the Group was as follows:		
Defined benefit scheme – UK	3.4	1.9
Defined benefit scheme – Others	0.4	0.5
Defined contribution schemes	0.4	0.5
Total pension costs	4.2	2.9

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 2003 when the actuary advised that the regular company funding rate for the Scheme on current market conditions should be 11.6% over the long term. The principal assumptions underlying this rate were that the return on investments held in respect of liabilities before and after members retire would be 7.5% and 5.25% per annum respectively, salary increases would average 3.5% per annum and future pensions in payment would increase by 2.3% per annum.

At 31 March 2003, the date of the last actuarial valuation, the market value of the assets of this scheme was £69.9m (estimated at £70.3m at the time of last year's Annual Report prior to completion of full actuarial valuation). The Minimum Funding Requirement funding level at 31 March 2003 was 106%. The assets represented 76% of the value of the benefits that had accrued to members at that date based on the assumptions set out above including assumed future increases in earnings. This shortfall is being funded over the remaining working life of the scheme members, estimated to be 16 years giving rise to an overall charge for the year of 17.2% (2003 8.5%) of pensionable salaries.

During the year the Group contributed to the Scheme at a rate of 13% (2003 11.5%) of pensionable salary. The increased charge has resulted in the prior year prepayment of £1.0m reducing to £0.2m at 31 March 2004.

8 PENSIONS continued**Defined benefit scheme - Others**

The Group also provides defined benefit pension schemes in the USA and Japan, of which the USA is the largest.

Defined contribution schemes

Since 1 April 2001 all new joiners in the UK have been offered participation in the defined contribution Oxford Instruments Stakeholder Plan. During the year ended 31 March 2004 the Company paid contributions to the scheme on a variable scale up to a maximum of 4% for members who contributed at a rate of at least 2%. Employees make contributions at a rate of their choice. Other defined contribution schemes are the Oxford Instruments 1998 Executive Pension Scheme, a UK scheme, and the 401k defined contribution plan in the USA.

FRS 17 retirement benefits

The two largest defined benefit schemes in the UK and USA have been assessed as at 31 March 2004 in the manner prescribed by FRS 17 in order to provide an indication of how these schemes would have been reflected in the Group Accounts under FRS 17. These further disclosures are included below. Details in respect of the Japanese defined benefit pension scheme were disclosed under FRS 17 last year, but given the relative insignificance of this scheme compared with the UK and USA defined benefit schemes, it has been removed.

For FRS 17 purposes, the last full valuations of the main schemes were updated to 31 March 2004 by qualified independent actuaries. The full actuarial valuation for the USA scheme at 31 December 2001 was updated to 31 December 2003. Results at 31 March 2004 have been taken to be the same as those at 31 December 2003. The following assumptions were used:

	United Kingdom			USA		
	2004 %	2003 %	2002 %	2004 %	2003 %	2002 %
Rate of general increase in salaries	3.9	3.5	3.8	4.0	4.0	4.0
Rate of increase of pensions in payment	2.7	2.3	2.6	0.0	0.0	0.0
Discount rate for scheme liabilities	5.6	5.5	5.9	6.0	6.0	6.0
Inflation	2.9	2.5	2.8	3.0	3.0	3.0

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

	United Kingdom			USA		
	2004 %	Expected long term rate of return		2004 %	Expected long term rate of return	
		2003 %	2002 %		2003 %	2002 %
Equities	8.0	8.0	8.0	8.5	8.5	10.0
Bonds	–	5.0	5.5	6.0	–	–
Corporate bonds	5.6	–	–	–	–	–
Gilts	4.7	–	–	–	–	–
Absolute return funds	7.5	–	–	–	–	–
Property	6.5	6.5	6.5	7.0	–	–
Cash and other assets	4.0	4.0	4.0	–	–	–

	United Kingdom			USA			Total		
	2004 £ million	2003 £ million	2002 £ million	2004 £ million	2003 £ million	2002 £ million	2004 £ million	2003 £ million	2002 £ million
Equities	49.7	49.2	66.0	1.5	2.2	2.5	51.2	51.4	68.5
Bonds	–	10.0	10.2	1.0	–	–	1.0	10.0	10.2
Corporate bonds	10.2	–	–	–	–	–	10.2	–	–
Gilts	10.3	–	–	–	–	–	10.3	–	–
Absolute return funds	8.1	–	–	–	–	–	8.1	–	–
Property	7.5	4.1	4.8	0.2	–	–	7.7	4.1	4.8
Cash and other assets	3.0	7.0	4.2	–	–	–	3.0	7.0	4.2
Total scheme assets	88.8	70.3	85.2	2.7	2.2	2.5	91.5	72.5	87.7
Present value of scheme liabilities	(124.3)	(101.5)	(90.8)	(4.4)	(4.5)	(4.3)	(128.7)	(106.0)	(95.1)
Deficit in the schemes	(35.5)	(31.2)	(5.6)	(1.7)	(2.3)	(1.8)	(37.2)	(33.5)	(7.4)
Related deferred tax asset	10.7	9.4	1.7	0.7	0.9	0.7	11.4	10.3	2.4
Net pension liability	(24.8)	(21.8)	(3.9)	(1.0)	(1.4)	(1.1)	(25.8)	(23.2)	(5.0)

8 PENSIONS continued

Balance sheet presentation:

	Group 2004 £ million	Group 2003 £ million
Net assets employed		
Net assets employed	92.9	89.2
Adjust for SSAP 24 pension assets and liabilities	0.7	0.1
Net pension liability under FRS 17	(25.8)	(23.2)
Net assets employed including FRS 17 pension liability	67.8	66.1
Capital and reserves		
Profit and loss account	55.5	52.0
Adjust for SSAP 24 pension assets and liabilities	0.7	0.1
Net pension liability under FRS 17	(25.8)	(23.2)
Profit and loss including FRS 17 pension liability	30.4	28.9

An analysis of the approximate defined benefit cost for the year to 31 March 2004 pursuant to FRS 17 is:

	2004 £ million	UK 2003 £ million	2004 £ million	USA 2003 £ million	2004 £ million	Total 2003 £ million
Current service cost	(3.0)	(3.8)	(0.4)	(0.4)	(3.4)	(4.2)
Past service cost	–	–	–	–	–	–
Total operating charge	(3.0)	(3.8)	(0.4)	(0.4)	(3.4)	(4.2)
Expected return on pension investments	5.0	6.5	0.2	0.2	5.2	6.7
Interest on pension liabilities	(5.6)	(5.5)	(0.3)	(0.2)	(5.9)	(5.7)
Net return	(0.6)	1.0	(0.1)	–	(0.7)	1.0
Total charge to profit and loss account before deduction of tax if FRS 17 is applied	(3.6)	(2.8)	(0.5)	(0.4)	(4.1)	(3.2)

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

	2004 £ million	UK 2003 £ million	2004 £ million	USA 2003 £ million	2004 £ million	Total 2003 £ million
Actual return less expected return on pension scheme assets	11.8	(23.5)	0.3	(0.7)	12.1	(24.2)
Experience gains arising on the scheme liabilities	1.1	–	–	–	1.1	–
Loss on change of assumptions	(16.0)	(1.8)	–	–	(16.0)	(1.8)
Total actuarial (loss)/profit recognised in STRGL	(3.1)	(25.3)	0.3	(0.7)	(2.8)	(26.0)

Analysis of FRS 17 movements in deficit during the year:

	2004 £ million	UK 2003 £ million	2004 £ million	USA 2003 £ million	2004 £ million	Total 2003 £ million
Deficit at 1 April 2003	(31.2)	(5.6)	(2.3)	(1.8)	(33.5)	(7.4)
Foreign exchange adjustment	–	–	0.4	0.1	0.4	0.1
Current service cost	(3.0)	(3.8)	(0.4)	(0.4)	(3.4)	(4.2)
Net return	(0.6)	1.0	(0.1)	–	(0.7)	1.0
Contributions	2.4	2.5	0.4	0.5	2.8	3.0
Actuarial (loss)/gain	(3.1)	(25.3)	0.3	(0.7)	(2.8)	(26.0)
Deficit at 31 March 2004	(35.5)	(31.2)	(1.7)	(2.3)	(37.2)	(33.5)

8 PENSIONS continued

For the UK scheme, the full actuarial valuation at 31 March 2000 updated to March 2003 showed a deficit of £31.2m. Company contributions net of expenses of £2.4m (12.0% of pensionable earnings) were made during the year ended 31 March 2004. Contributions for the next year will be at the rate of 14.5% of pensionable earnings, inclusive of expenses. As the scheme is closed to new members, under the projected unit method, the current service cost will increase as the members of the scheme approach retirement.

For the USA scheme contributions of £0.4m (6.7% of pensionable earnings) were made during the year ended 31 December 2003. It is likely that the contributions for the next year will remain at that level.

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.

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

	2004	UK 2003	2004	USA 2003	2004	Total 2003
Difference between the expected and actual return:						
Amount £m	11.8	(23.5)	0.3	(0.7)	12.1	(24.2)
% of scheme assets	13%	(34%)	9%	(27%)	13%	(33%)
Experience gains and losses on scheme liabilities:						
Amount £m	1.1	–	–	–	1.1	–
% of the present value of the scheme liabilities	1%	–	–	–	1%	–
Total amount recognised in statement of total recognised gains and losses:						
Amount £m	(3.1)	(25.3)	0.3	(0.7)	(2.8)	(26.0)
% of the present value of the scheme liabilities	(3%)	(25%)	5%	(14%)	(2%)	(25%)

9 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:

	2004 £ million	2003 £ million
UK corporation tax:		
Tax on profit/(loss) in the period	–	(1.0)
Adjustments relating to prior years	0.4	(0.3)
Tax on share of profit of joint venture	(0.1)	0.3
	0.3	(1.0)
Foreign tax:		
Tax on profit in the period	3.1	2.8
Adjustments relating to prior years	–	(0.2)
	3.1	2.6
Total current tax	3.4	1.6
Deferred tax:		
Origination and reversal of timing differences in respect of:		
Profit/(loss) in the period	(0.8)	0.3
Adjustment to the estimated recoverable amount of deferred assets arising in previous periods	(0.7)	(0.7)
Total deferred tax (Note 24)	(1.5)	(0.4)
Total tax on profit on ordinary activities	1.9	1.2

9 TAX ON PROFIT ON ORDINARY ACTIVITIES continued

For discontinued and exceptional items and terminated business the tax credit has been calculated by comparing the computed taxation charge as 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 £5.5m (2003 £6.0m) have not been recognised due to the degree of uncertainty about the utilisation of the underlying tax losses and deductions.

Factors affecting tax charge for the period

	2004 £ million	2003 £ million
Group profit on ordinary activities before tax	11.9	2.4
Group profit on ordinary activities before tax at 30% (UK corporation tax rate)	3.6	0.7
Effects of:		
Permanent differences	(2.3)	0.6
Goodwill amortised	0.2	(0.2)
Short term timing differences	0.6	(0.7)
Accounting depreciation (less than)/in excess of tax depreciation	(0.3)	1.2
Current tax losses not utilised	0.4	0.1
Adjustments relating to prior years' corporation tax	0.4	(0.5)
Net cost of different rates of taxation in overseas undertakings	0.6	0.7
Tax losses utilised in the year	-	(0.1)
Differences in UK and overseas accounting policies	0.2	(0.2)
Total current tax	3.4	1.6

10 DIRECTORS' REMUNERATION AND INTERESTS

Information on Directors' remuneration, pensions, shareholdings and options is set out on pages 25 to 30 and forms part of these Financial Statements.

11 DIVIDENDS

	2004 £ million	2003 £ million
Interim dividend of 2.4p (2003 2.4p) per share, paid on 26 March 2004	1.1	1.1
Proposed final dividend 6.0p per share (2003 6.0p), payable on 29 October 2004	2.8	2.8
Total dividend of 8.4p per share (2003 8.4p)	3.9	3.9

Subject to the approval of the shareholders at the Annual General Meeting on 21 September 2004, the proposed final dividend will be paid on 29 October 2004 to shareholders registered at the close of business on 1 October 2004. The ordinary shares will be quoted ex-dividend on 29 September 2004. 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 15).

12 EARNINGS PER SHARE

Earnings per share has been calculated as follows:

	2004 £ million	2003 £ million
Continuing operations		
Profit for the financial year	4.8	3.5
Exceptional items and terminated business	(1.2)	(1.7)
Interest in joint venture	(0.2)	0.9
Net profit on disposal of joint venture	6.6	–
Discontinued operations - loss for the financial year	–	(1.5)
Net profit for the financial year	10.0	1.2
	Shares 000	Shares 000
Weighted average ordinary shares in issue during year	46,887	46,803
Dilutive effect of employee share options	243	269
Diluted weighted average ordinary shares	47,130	47,072

13 INTANGIBLE ASSETS – GOODWILL

	Goodwill £ million	Negative goodwill £ million	Group Total £ million
Cost			
At 31 March 2003	4.1	(2.5)	1.6
Addition	0.6	–	0.6
At 31 March 2004	4.7	(2.5)	2.2
Amortisation			
At 31 March 2003	(1.4)	2.5	1.1
Amortisation	(0.7)	–	(0.7)
At 31 March 2004	(2.1)	2.5	0.4
Net book value			
At 31 March 2003	2.7	–	2.7
At 31 March 2004	2.6	–	2.6

Goodwill arose on the acquisition of the assets of VG Semicon during the year and is being written off to the profit and loss account over five years (see Note 16).

14 TANGIBLE FIXED ASSETS

	Property £ million	Other fixed assets £ million	Group Total £ million	Property £ million	Other fixed assets £ million	Company Total £ million
Cost						
At 31 March 2003	25.8	46.5	72.3	0.3	1.7	2.0
Exchange adjustments	(0.5)	(1.4)	(1.9)	–	–	–
Additions	–	2.4	2.4	–	0.2	0.2
Acquisitions	–	0.3	0.3	–	–	–
Disposals	(0.1)	(3.1)	(3.2)	–	–	–
At 31 March 2004	25.2	44.7	69.9	0.3	1.9	2.2
Depreciation						
At 31 March 2003	4.8	31.9	36.7	0.1	1.4	1.5
Exchange adjustments	(0.3)	(1.0)	(1.3)	–	–	–
Amounts provided	0.5	4.2	4.7	–	0.1	0.1
Disposals	(0.1)	(2.7)	(2.8)	–	–	–
At 31 March 2004	4.9	32.4	37.3	0.1	1.5	1.6
Net book value						
At 31 March 2003	21.0	14.6	35.6	0.2	0.3	0.5
At 31 March 2004	20.3	12.3	32.6	0.2	0.4	0.6

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

	Group 2004 £ million	Group 2003 £ million	Company 2004 £ million	Company 2003 £ million
Property				
Freehold land	3.7	3.7	–	–
Freehold buildings	10.9	11.4	0.2	0.2
Long leasehold land and buildings	5.6	5.8	–	–
Short leasehold land and buildings	0.1	0.1	–	–
	20.3	21.0	0.2	0.2
Other fixed assets				
Machinery and other equipment	6.0	6.7	–	–
Fixtures and fittings	4.9	6.0	–	–
Computer equipment	1.3	1.6	0.4	0.3
Vehicles	0.1	0.3	–	–
	12.3	14.6	0.4	0.3

The Directors believe the open market value of freehold land and buildings exceeds the book value by approximately £5.6m (2003 £4.5m), which if realised through disposal would create a tax liability of approximately £1.7m (2003 £0.5m). Freehold land is not depreciated, but the remainder of the property gross cost of £21.8m (2003 £22.1m) is depreciated.

15 INVESTMENTS

	Group 2004 £ million	Group 2003 £ million	Company 2004 £ million	Company 2003 £ million
Shares in subsidiary undertakings	–	–	66.6	66.6
Shares in joint venture	–	–	–	1.6
Investment in joint venture	–	1.8	–	–
Oxford Instruments plc shares held in trust	0.8	1.0	0.8	1.0
Minority investments	1.6	1.3	1.1	1.3
	2.4	2.3	1.9	2.3
	2.4	4.1	68.5	70.5

In December 2003, the Group sold its investment in its joint venture (see Note 4).

In total 1,051,497 shares (2003 1,080,497) are now held in the Employee Benefit Trust in relation to Executive Share Option, Senior Executive Long Term Incentive and Savings Related Share Option schemes. Dividends on these shares are being waived.

As part of the transfer of the exploration gravity gradiometer business to ARKeX Limited (ARKeX), an investment of £0.2m was made in ARKeX which resulted in the Group holding 24% of the ordinary share capital of ARKeX.

In addition the Group increased its stake in Target Systemelectronic GmbH from 20% to 25% and subscribed for 25% of the issued share capital of Target Systemelectronic Inc on its formation during the year.

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

	Shares in subsidiary undertakings £ million	Shares in joint venture £ million	Investment in joint venture £ million	Executive incentive scheme shares £ million	Minority investments £ million
Cost or valuation					
At 31 March 2003	66.6	1.6	1.8	1.0	1.3
Share of retained loss for the year	–	–	(0.2)	–	–
Amount written off	–	–	–	(0.2)	–
Additions	–	–	–	–	0.3
Disposals	–	(1.6)	(1.6)	–	–
At 31 March 2004	66.6	–	–	0.8	1.6

Minority investments at 31 March 2004 comprise:

Minority investment	Principal activity	Percentage of ordinary share capital held
ARKeX Limited	Supply of exploration gravity gradiometry and related services to the oil, gas and minerals industries	24%
Oxford BioSignals Limited	Advanced signal processing and neural network technology delivering advanced health monitoring solutions to medical and engineering markets	7%
Oxford Diffraction Limited	X-ray diffraction systems and ancillary products for chemical crystallography and protein structure determination	25%
Oxfordshire Biotechnet Limited	Business accommodation and support for start-ups and early-stage bioscience companies	3%
Target Systemelectronic GmbH	Measurement instruments for nuclear radiation detection	25%
Target Instruments Incorporated	Measurement instruments for nuclear radiation detection	25%

16 ACQUISITION

The Group acquired the business and assets of VG Semicon based in East Grinstead, UK, on 3 October 2003 for a net cash consideration of £0.2m (\$0.3m). A further £0.1m payment is deferred and payable over the next two years.

	Book value £ million	Accounting policy adjustment £ million	Fair value adjustment £ million	Fair value to the Group £ million
Tangible fixed assets	0.3	–	–	0.3
Stocks	0.3	0.1	0.1	0.5
Creditors	(0.2)	(0.5)	–	(0.7)
Provisions	(0.4)	–	–	(0.4)
Net assets/(liabilities)	–	(0.4)	0.1	(0.3)
Goodwill				0.6
Total purchase cost				0.3
Less consideration deferred				(0.1)
Net cash outflow in respect of the purchase				0.2
Less net cash acquired				–
Net cash outflow on acquisition				0.2

The book value of the assets acquired are based on the management accounts at the date of acquisition. The accounting policy adjustment reflects the reversal of a sale previously recognised under the prior revenue recognition policy. The Group recognises revenue on product shipment. The fair value adjustment reflects the revaluation of stocks to reflect the write up to estimated realisable value.

17 DISPOSALS

On 4 December 2003 the Company sold its interest in Oxford Magnet Technology Limited (OMT) for a cash consideration of £8.5m.

	£ million
Gain on sale of 49% shareholding of OMT	6.8
Less goodwill previously written off against reserves	(0.2)
Net profit on disposal of OMT	6.6

On 16 March 2004 the Cambridge based exploration gravity gradiometer business was transferred to ARKeX Limited (ARKeX) in return for shares in ARKeX. There was no profit or loss on disposal. The intellectual property connected with this business has been licenced to ARKeX with Oxford Instruments potentially 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.

As part of the arrangement further investment has also been made by Oxford Instruments in ARKeX (see Note 15).

In the prior year ended 31 March 2003 the Group disposed of its On-Line Process Systems and its Thin Films businesses. The results of the On-Line Process Systems business are shown as discontinued in the year ended 31 March 2003.

18 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 Magnet KK	*100	Japan	Distribution
Oxford Instruments Pte Ltd	*100	Singapore	Distribution

A full list of the Group companies as at 31 March 2004 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.

19 STOCKS

	Group 2004 £ million	Group 2003 £ million
Raw materials and consumables	11.8	16.0
Work in progress	10.7	12.8
Finished goods and goods for resale	6.0	7.7
Total stocks	28.5	36.5

20 DEBTORS

	Group 2004 £ million	Group 2003 £ million	Company 2004 £ million	Company 2003 £ million
Amounts falling due within one year				
Trade debtors	40.5	42.4	–	–
Amounts recoverable on contracts	8.4	6.8	–	–
Amounts owed by subsidiary undertakings	–	–	67.0	50.3
Amounts owed by joint venture	–	1.8	–	–
Other debtors	2.2	3.0	0.3	0.1
Prepayments and accrued income	2.6	3.1	0.4	0.3
	53.7	57.1	67.7	50.7
Amounts falling due after one year				
Deferred tax (see Note 24)	5.2	4.0	0.3	–
Total debtors	58.9	61.1	68.0	50.7

21 CASH AT BANK AND IN HAND

	Group 2004 £ million	Group 2003 £ million	Company 2004 £ million	Company 2003 £ million
Cash at bank and in hand	23.2	6.4	18.9	31.7

22 CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	Group 2004 £ million	Group 2003 £ million	Company 2004 £ million	Company 2003 £ million
Bank loans and overdrafts	2.5	3.1	0.7	16.0
Payments received on account	4.1	7.0	–	–
Trade creditors	19.4	12.5	0.3	0.3
Amounts owed to subsidiary undertakings	–	–	20.7	6.4
Amounts owed to joint venture	–	4.9	–	–
Other creditors	1.2	1.9	–	–
Corporation tax, UK and overseas	2.1	1.9	0.2	1.5
Payroll tax, social security and sales related taxes	1.9	1.7	–	0.1
Accruals and deferred income	16.0	16.1	1.4	0.6
Proposed dividends	2.8	2.8	2.8	2.8
Other creditors	47.5	48.8	25.4	11.7

23 PROVISIONS FOR LIABILITIES AND CHARGES

	Warranty provisions £ million	Pension obligations £ million	Other provisions £ million	Group Total £ million
At 31 March 2003	4.0	1.1	0.2	5.3
Provided in the year	4.0	0.3	0.1	4.4
Utilised in the year	(2.8)	(0.4)	(0.1)	(3.3)
Released unused	(1.3)	–	–	(1.3)
Acquisition	0.4	–	–	0.4
Exchange movements	(0.1)	(0.1)	–	(0.2)
At 31 March 2004	4.2	0.9	0.2	5.3

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. The £0.1m provision in the Company balance sheet relates to a surplus lease.

24 DEFERRED TAX

	Group 2004 £ million	Group 2003 £ million	Company 2004 £ million	Company 2003 £ million
Deferred tax asset				
At 31 March 2003	4.0	3.8	–	–
Transfer to profit and loss account	1.5	0.4	0.3	–
Exchange movements	(0.3)	(0.2)	–	–
As at 31 March 2004	5.2	4.0	0.3	–

	Group Recognised 2004 £ million	Group Recognised 2003 £ million	Group Unrecognised 2004 £ million	Group Unrecognised 2003 £ million
The amounts for deferred tax assets, representing the full potential liability, are set out below:				
Excess of depreciation over corresponding capital allowances	1.6	1.1	0.4	1.1
Other timing differences	3.4	2.7	–	0.2
Carried forward losses	0.2	0.2	5.1	4.7
	5.2	4.0	5.5	6.0

	Company Recognised 2004 £ million	Company Recognised 2003 £ million	Company Unrecognised 2004 £ million	Company Unrecognised 2003 £ million
The amounts for deferred tax assets, representing the full potential liability, are set out below:				
Excess of depreciation over corresponding capital allowances	0.2	–	–	0.3
Other timing differences	0.1	–	–	–
	0.3	–	–	0.3

A deferred tax asset of £5.2m (2003 4.0m) has been recognised in the accounts. This asset relates to short term timing differences, mainly in the USA, deferred 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 differences can be deducted and the losses utilised.

25 CALLED UP SHARE CAPITAL

	2004 Shares 000	2004 £ million	2003 Shares 000	2003 £ million
Authorised				
Ordinary shares of 5p each	58,000	2.9	58,000	2.9
Allotted, called up and fully paid				
Ordinary shares of 5p each	48,090	2.4	47,926	2.4

	Number of shares	Aggregate nominal value	Consideration per share
New issues of ordinary shares of 5p each during the year			
Exercise of Savings Related Share Options	164,063	£8,203	£1.48 – £1.73

	2004 Number of shares	Option price range	Period when exercisable	2003 Number of shares
Options subsisting at the year end on unissued ordinary shares				
Executive Share Option Schemes	2,900,649	£1.48 – £4.87	01/04/04 – 14/07/13	2,236,112
Savings Related Share Option Scheme	607,684	£1.27 – £1.87	01/04/04 – 31/07/09	954,832
Total options subsisting on unissued ordinary shares	3,508,333			3,190,944
Percentage of issued share capital	7.3%			6.7%

	2004 Number of shares	Option price range	Period when exercisable	2003 Number of shares
Options subsisting at the year end on existing ordinary shares held in trust				
Senior Executive Long Term Incentive Scheme	319,134	Nil	01/04/04 – 16/07/09	395,134
Executive Share Option Scheme	119,750	£1.94½ – £1.96	01/04/04 – 23/12/09	174,750
Individual Options	467,113	Nil – £2.95	01/04/04 – 19/12/08	487,113
Savings Related Share Option Scheme	95,182	£1.64	01/02/09 – 31/07/09	–
Total options subsisting on existing ordinary shares held in trust	1,001,179			1,056,997

26 RESERVES

	Share premium account £ million	Capital redemption reserve £ million	Other reserves £ million	Group Profit and loss account £ million
At 31 March 2003	18.8	0.1	15.9	52.0
Premium on issued shares	0.2	–	–	–
Retained profit for the financial year	–	–	–	6.1
Goodwill written back to the profit and loss account	–	–	–	0.2
Other exchange adjustments	–	–	–	(2.8)
At 31 March 2004	19.0	0.1	15.9	55.5

Purchased goodwill of £39.5m (2003 £39.7m), previously eliminated against reserves, has been offset against the profit and loss account.

	Share premium account £ million	Capital redemption reserve £ million	Other reserves £ million	Company Profit and loss account £ million
At 31 March 2003	18.8	0.1	7.6	96.8
Premium on issued shares	0.2	–	–	–
Goodwill written back to the profit and loss account	–	–	–	0.2
Retained profit for the financial year	–	–	–	3.7
At 31 March 2004	19.0	0.1	7.6	100.7

Distributable reserves of the Company at 31 March 2004 were £100.7m (2003 £96.8m).

27 RECONCILIATIONS OF MOVEMENTS IN EQUITY SHAREHOLDERS' FUNDS

	Group 2004 £ million	Group 2003 £ million	Company 2004 £ million	Company 2003 £ million
Profit for the financial year	10.0	1.2	7.6	19.0
Dividends paid and proposed	(3.9)	(3.9)	(3.9)	(3.9)
Retained profit/(loss) for the financial year	6.1	(2.7)	3.7	15.1
Exchange differences on foreign currency net investments	(2.8)	(3.3)	–	–
Goodwill written back to the profit and loss account	0.2	–	0.2	–
New share capital subscribed	0.2	–	0.2	–
Net increase/(reduction) in equity shareholders' funds	3.7	(6.0)	4.1	15.1
Opening equity shareholders' funds	89.2	95.2	125.7	110.6
Closing equity shareholders' funds	92.9	89.2	129.8	125.7

28 NET CASH FLOW FROM OPERATING ACTIVITIES

	2004 £ million	2003 £ million
Group operating profit	5.7	3.9
Depreciation charges	4.9	5.7
Amortisation of goodwill	0.7	0.3
Net (profit)/loss on disposal of fixed assets	(0.1)	0.1
Change in stocks	6.9	10.9
Change in debtors	1.2	5.4
Change in creditors	(1.4)	(10.7)
Change in provisions	(0.1)	(0.7)
Net cash inflow from operating activities	17.8	14.9

Included in net cash flows from operating activities are outflows of £0.9m (2003 £1.7m) relating to exceptional items.

29 CASH FLOWS NETTED IN THE CASH FLOW STATEMENT

	2004 £ million	2003 £ million
Interest received	0.2	–
Interest paid	(0.3)	(1.2)
Net cash outflow from returns on investments and servicing of finance	(0.1)	(1.2)
Purchase of fixed assets	(2.4)	(3.0)
Sale of fixed assets	0.5	0.3
Investments acquired	(0.3)	(0.1)
Net cash outflow for capital expenditure and financial investment	(2.2)	(2.8)
Increase in term deposits	(14.0)	–
Decrease in term loans	(0.8)	(5.8)
Net cash outflow from management of liquid resources	(14.8)	(5.8)
Issue of ordinary shares including share premium	0.2	–
Net cash inflow from financing	0.2	–

30 MOVEMENT IN NET FUNDS

	At 31 March 2004 £ million	Exchange rate effect £ million	Cash movement in year £ million	At 31 March 2003 £ million
Cash at bank and in hand	9.2	(0.6)	3.4	6.4
Bank overdrafts	(0.9)	–	(0.5)	(0.4)
Net cash	8.3	(0.6)	2.9	6.0
Cash on short-term deposit	14.0	–	14.0	–
Debt due within one year	(1.6)	0.3	0.8	(2.7)
Net funds	20.7	(0.3)	17.7	3.3

31 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 2004 was as follows:

	Gains £ million	(Losses) £ million	Net total £ million
Unrecognised gains and losses at 31 March 2003	0.4	(0.7)	(0.3)
Gains and losses arising in previous year recognised in current year	(0.4)	0.7	0.3
Gains and losses arising in current year and not recognised in current year	0.8	–	0.8
Unrecognised gains and losses at 31 March 2004	0.8	–	0.8

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 2004 were:

	Gross contract value million	Book value £ million	Fair value £ million
US Dollars	11	–	0.2
Japanese Yen	810	–	0.1
Euros	15	–	0.5

The net foreign currency monetary assets after taking account of contract hedges at 31 March 2004 were:

	Net monetary assets £ million
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.

31 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 2004:

	Currency	Interest rate	Book and fair value £ million
Cash in hand and short-term deposits	Sterling	floating	17.4
Cash in hand	US Dollar	floating	2.4
Cash in hand	Singapore Dollar	floating	0.1
Cash in hand and short term deposits	Euro	floating	1.3
Cash in hand and short term deposits	Japanese Yen	none	2.0
Total financial assets			23.2
Bank loans	US Dollar	floating	1.6
Bank overdraft	Euro	floating	0.9
Total financial liabilities			2.5

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 and EURIBOR rates.

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

Borrowing facilities

The Group had committed borrowing facilities at 31 March 2004 of £15.0m (2003 £15.0m) of which the following were undrawn:

	2004 £ million	2003 £ million
Expiring in less than 1 year	5.0	10.0
Expiring in more than 2 years but less than 5 years	10.0	5.0

32 CONTINGENT LIABILITIES

	Group 2004 £ million	Group 2003 £ million	Company 2004 £ million	Company 2003 £ million
Guarantees in respect of subsidiary undertakings' indebtedness	–	–	2.5	1.0
Guarantees in respect of joint venture indebtedness	–	–	–	7.6
	–	–	2.5	8.6

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 8 and 23 there are no unfunded pension or post retirement medical costs. No security has been given in respect of any contingent liability.

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

33 OTHER COMMITMENTS

	Group 2004 £ million	Group 2003 £ million	Company 2004 £ million	Company 2003 £ million
Capital commitments				
Contracted for but not provided	1.0	0.2	-	-

Leasing commitments

Annual commitments under non-cancellable operating leases expiring within:

		Group 2004 £ million	Group 2003 £ million	Company 2004 £ million	Company 2003 £ million
1 year	Land and buildings	0.5	0.1	-	-
	Other	0.2	0.1	-	-
	Total	0.7	0.2	-	-
2 to 5 years	Land and buildings	0.7	1.0	-	-
	Other	0.6	0.6	0.1	0.1
	Total	1.3	1.6	0.1	0.1
Thereafter	Land and buildings	0.6	0.8	-	-
	Other	-	-	-	-
	Total	0.6	0.8	-	-

34 EXCHANGE RATES

The principal exchange rates to sterling used were:

Average translation rates	2004	2003	Year end rates	2004	2003
US Dollar	1.69	1.54	US Dollar	1.84	1.58
Euro	1.45	1.56	Euro	1.50	1.45
Yen	191	188	Yen	191	187
Average contract rates	2004	2003			
US Dollar	1.63	1.50			
Euro	1.49	1.59			
Yen	183	176			

The formal notice convening the Company's 2004 Annual General Meeting (AGM) and explanations of the resolutions the Directors will be proposing at the meeting are set out below.

NOTICE OF THE 2004 ANNUAL GENERAL MEETING

Notice is hereby given that the fortieth Annual General Meeting of Oxford Instruments plc will be held at 2.30pm on 21 September 2004 at the offices of Oxford Instruments plc, Old Station Way, Eynsham, Witney, Oxon OX29 4TL to transact the following business:

1 Directors' Remuneration Report

To approve the Directors' Remuneration Report set out on pages 25 to 30 of the Reports and Financial Statements for the year ended 31 March 2004.

2 Directors' Report and Accounts

To receive and adopt the Reports and Financial Statements for the year ended 31 March 2004 and the Report of the Auditors thereon.

3 Final dividend

To declare the final dividend for the year to 31 March 2004.

4 Re-election of Directors

- (a) To re-elect Nigel Keen who retires by rotation but, being eligible, will be proposed for re-election.
- (b) To re-elect Mike Brady who retires by rotation but, being eligible, will be proposed for re-election.

5 Appointment and remuneration of Auditors

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

6 Permission for the Directors to allot further shares

To consider as an Ordinary Resolution that the authority conferred by Article 10.1 of the Articles of Association be renewed until the earlier of the expiry of the next following Annual General Meeting of the Company and the date which is fifteen months from the date of the passing of this Resolution and that the Section 80 amount be £801,498.

7 Amendment to the Company's Articles of Association – applying the relaxation of the restrictions which normally apply when ordinary shares are issued for cash to the sale of treasury shares

To consider as a Special Resolution that the Articles of Association of the Company be amended by:

- (a) adding the words, "and to sell relevant shares (as so defined) which are at any time held by the Company as treasury shares ("Treasury Shares")" between the words "pursuant to that authority" and "as if" in the first paragraph of Article 10.2;
- (b) by adding the words "or the sale of Treasury Shares" between the words "allotment of equity securities" and "whereby there will be an offer" in the first line of Article 10.2(a);
- (c) by deleting the words "all such securities" in Article 10.2(a) and replacing them with "the same";
- (d) by adding the words "and / or the sale of Treasury Shares" between the words "allotment of equity securities" and "up to an aggregate nominal amount" in the first line of Article 10.2(b); and
- (e) by adding the words "or Treasury Shares to be sold" between the words "equity securities to be allotted" and "after it expires" in Article 10.2(ii)

8 Relaxation of the restrictions which normally apply when ordinary shares are issued for cash

To consider as a Special Resolution that the authority conferred by Article 10.2 of the Articles of Association be renewed until the earlier of the expiry of the next following Annual General Meeting of the Company and the date which is fifteen months from the date of the passing of this Resolution and that the Section 89 amount be £120,224.

9 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 4,808,988 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 Meeting or the expiry of fifteen months from the date of the passing of the Resolution
- (iii) the Company may make a contract for purchase which would, or might, be executed wholly or partly after the expiry of the authority
- (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.

10 Donations to EU political organisations and EU political expenditure

To consider as an Ordinary Resolution that the Company be and is hereby authorised to:

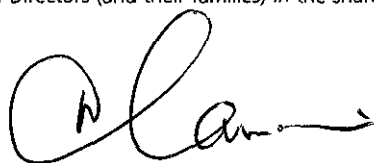
- (i) make donations to any one or more EU political organisations which is not a registered party; and
- (ii) incur EU political expenditure

in an aggregate amount not exceeding £100,000 per annum during the period commencing on the date of this Resolution and ending on the date of the Annual General Meeting in 2005. For the purposes of this Resolution, the expressions "Donations", "EU political organisations", "EU political expenditure" and "registered party" have the meanings set out in section 347A of the Companies Act 1985 (as amended by the Political Parties, Elections and Referendums Act 2000).

MEETING NOTES

- 1 A member entitled to attend and vote at the Meeting is entitled to appoint one or more proxies to attend and, on a poll, to vote instead of him. Such proxy or proxies need not be a member or members of the Company. A Form of Proxy is enclosed.
- 2 To be effective the Form of Proxy must be lodged with the Company's Registrar at Capita Registrars, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU no later than forty-eight hours before the time fixed for the Meeting.
- 3 Pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001, the Company specifies that only those Shareholders registered in the register of members of the Company as at the close of business on 19 September 2004 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 19 September 2004 shall be disregarded in determining the rights of any person to attend or vote at the Meeting.
- 4 Copies of the following documents will be available for inspection at the Registered Office of the Company and at the offices of the Company's solicitors, Laytons, Carmelite, 50 Victoria Embankment, London EC4Y 0LS during normal business hours on any weekday (Saturdays and public holidays excepted) from the date of this Notice until the conclusion of the Meeting:
 - (i) the service contracts of 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
23 August 2004

**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 6 and 10 will be proposed as ordinary resolutions. More than 50% of the votes cast must support these resolutions in order for them to be passed. *Resolutions 7, 8 and 9* will be proposed as special resolutions and 75% or more of the votes cast must support them in order for these resolutions to be passed.

Resolution 1 – Shareholders will be asked to approve the adoption of the Directors' Remuneration Report for the year ended 31 March 2004. Under the "Directors Remuneration Report Regulations 2002" Directors are required to ask shareholders to vote on the Directors' Remuneration Report (shown on pages 25 to 30). The Directors, who have unanimously endorsed the Directors' Remuneration Report, consider that asking the shareholders to vote on this report facilitates accountability and transparency.

Resolution 2 – Shareholders will be asked to approve the adoption of the Reports and Financial Statements for the year ended 31 March 2004.

Resolution 3 – Shareholders will be asked to approve payment of a final dividend of 6.0p per ordinary share for 2004. If approved at the AGM the dividend will be paid on 29 October 2004 to shareholders registered at the close of business on 1 October 2004.

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

The Company's Articles of Association state that every director shall retire from office at the third 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 2004 AGM Nigel Keen and Mike Brady are retiring under this provision and being eligible are standing for re-election.

Nigel Keen, Chairman, was first elected at the Annual General Meeting in 1999, having been appointed to the Board as an Independent Non-Executive Director in February of that year. Nigel Keen is currently Chairman of the Nomination and Remuneration Committees. It is the Board's intention to offer Nigel Keen a further three year term of appointment on the expiry of his current term. Having been Chairman during a substantial reorganisation of the Company, the Board believes he will be best placed to contribute to the development and implementation of the next stage of the Company's Strategy.

Mike Brady is Deputy Chairman and Senior Independent Director and as of 1 August 2004 has served on the Board for nine years. He is currently a member of the Audit, Remuneration and Nomination Committees. Mike Brady first became a Non-Executive Director of the Company in 1995; accordingly the Board has considered whether it is appropriate in view of his length of service that he continue in office and if so whether he should be considered to be independent. Having taken into account his technical expertise as the only Non-Executive Director from a scientific profession; the value of that expertise to Board discussions; the strength of his professional and business interests unrelated to the Group or other members of the Board; his continual constructive probing from the technical aspect of proposals considered by the Board; the composition of the Board generally and the fact that he qualifies as independent in all other criteria referred to in the Combined Code, the Board has concluded that it is appropriate that he continue in office and that he should properly be considered to be independent. This year, Mike Brady retires by rotation under the Articles of Association. In subsequent Annual General Meetings, in addition to other Directors retiring by rotation, he will retire in accordance with the provisions of the Combined Code and may offer himself for re-election to allow shareholders the opportunity to express their views on the matter.

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

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

Resolution 6 – This Resolution lifts the restrictions which would apply to the Directors' power to allot or agree to allot new shares and will allow the Directors to allot or agree to allot further relevant securities up to an aggregate nominal amount of £801,498. This represents one-third of the issued ordinary share capital on 31 March 2004. 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 20 December 2005. The Directors have no present intention of allotting new ordinary shares, other than pursuant to the exercise of options under employees' share schemes. The Company presently holds no Treasury Shares.

Resolution 7 – These amendments to the Articles of Association ensure that the authority proposed to be given to the Directors for disapplication of pre-emption rights (which this year is contained in Resolution 8) applies equally to the sale of treasury shares as to the allotment of shares authorised to be allotted pursuant to Resolution 6.

Resolution 8 – 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 2,404,494 which represents 5% of the issued ordinary share capital on 31 March 2004. This Special Resolution replaces the Directors' existing authority and, if passed, will lapse at the earlier of the AGM following its passing or if later, on 20 December 2005.

Resolution 9 – This is a renewal of the authority granted to Directors at the 2003 AGM. It allows the Company to buy back up to 4,808,988 of its issued ordinary shares on the stock market. This is equal to 10% of the Company's issued share capital on 31 March 2004. The Resolution sets out the lowest and highest prices the Company can pay for the shares.

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

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

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

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

This power will automatically lapse at the end of the Company's next AGM or on 20 December 2005 whichever is earlier.

Resolution 10 – The Company did not make any donations to political parties in the European Union ("EU") in the year under review and it is the Company's current policy not to do so. However, the Political Parties, Elections and Referendums Act 2000 ("PPERA") effective from February 2001, defines EU Political Organisations very widely and, as a result, in certain circumstances, donations intended for charitable or similar purposes may now be regarded as political in nature.

In order to comply with its obligations and to avoid any inadvertent infringement of PPERA, the Company considers it is prudent to seek shareholders' approval for a maximum aggregate level of donation. Resolution 10 seeks authority for the Company to make donations to EU Political Organisations or incur EU Political Expenditure not exceeding £100,000 per annum. The Company has no present intention of using this authority for any purpose other than a continuation of normal business and employment practices. In particular this authority will not be used to make any political donations as that expression would have been understood before PPERA became law.

This authority would last until the conclusion of the Company's AGM in 2005.

Financial calendar

31 March 2004	Financial year end
3 June 2004	Announcement of preliminary results
21 September 2004	Annual General Meeting
29 September 2004	Ordinary shares quoted ex-dividend
1 October 2004	Record date for final dividend
29 October 2004	Payment of final dividend
Mid November 2004	Announcement of half year results
End March 2005	Payment of interim dividend
31 March 2005	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
E-mail ssd@capitaregistrars.com

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

Dividend bank mandates

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

Consolidation of share certificates

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

Shareholder enquiries

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

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

Company registration

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

Website – www.oxford-instruments.com

The Oxford Instruments website 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
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Analysis of shareholders as at 31 March 2004

Size of shareholding	Number of holders	% of total	Total holding	% of total
Up to 5,000 shares	3,133	91.6	2,036,207	4.2
5,001 to 50,000 shares	205	6.0	2,902,633	6.0
50,001 to 200,000 shares	43	1.3	4,275,135	8.9
Over 200,000 shares	39	1.1	38,875,912	80.9
Total	3,420	100.0	48,089,887	100.0

	2000 £ million	2001 £ million	2002 £ million	2003 £ million	2004 £ million
Profit and loss account					
Group and share of joint venture turnover	201.1	221.9	260.3	231.4	193.1
Less share of joint venture turnover	(40.4)	(36.8)	(46.6)	(44.1)	(10.8)
Group turnover	160.7	185.1	213.7	187.3	182.3
Group operating profit/(loss) before goodwill, exceptional items and discontinued businesses	(5.1)	2.2	6.7	6.8	8.0
Exceptional items	(7.3)	(1.4)	–	(2.1)	(1.6)
Discontinued businesses before goodwill	(2.4)	(2.1)	(1.1)	(0.5)	–
Goodwill amortisation	0.1	(0.1)	(0.3)	(0.3)	(0.7)
Group operating profit/(loss)	(14.7)	(1.4)	5.3	3.9	5.7
Group share of operating profit/(loss) of joint venture	5.8	4.4	5.2	1.6	(0.2)
Total operating profit/(loss)	(8.9)	3.0	10.5	5.5	5.5
Profit/(loss) on sale of business	2.9	0.6	–	(1.5)	–
Profit on disposal of investment	–	–	–	–	6.8
Profit on disposal of properties	–	–	3.0	–	–
Goodwill previously written off	(12.0)	–	–	–	(0.2)
Net interest receivable/(payable)	0.2	(0.8)	(1.5)	(1.6)	(0.2)
Profit/(loss) on ordinary activities before tax	(17.8)	2.8	12.0	2.4	11.9
Taxation	(1.6)	(2.9)	(2.7)	(1.2)	(1.9)
Profits/(losses) attributable to shareholders	(19.4)	(0.1)	9.3	1.2	10.0
Balance sheet					
Intangible assets – goodwill	1.6	4.4	4.4	2.7	2.6
Tangible fixed assets	40.8	43.8	38.9	35.6	32.6
Investments	5.0	5.0	5.7	4.1	2.4
Stocks	36.1	43.7	48.5	36.5	28.5
Debtors	63.2	69.3	67.4	61.1	58.9
Other creditors	(53.3)	(61.9)	(59.7)	(48.8)	(47.5)
Net current assets, excluding net cash/(debt)	46.0	51.1	56.2	48.8	39.9
Cash at bank and on short term deposits	5.7	1.6	4.8	6.4	23.2
Bank loans and overdrafts	(3.1)	(9.9)	(8.8)	(3.1)	(2.5)
Net cash/(debt)	2.6	(8.3)	(4.0)	3.3	20.7
Provisions for liabilities and charges	(8.5)	(6.2)	(6.0)	(5.3)	(5.3)
Net assets employed	87.5	89.8	95.2	89.2	92.9
Equity shareholders' funds	87.5	89.8	95.2	89.2	92.9
Cash flow					
Net cash inflow/(outflow) from operating activities	(1.6)	(1.9)	6.6	14.9	17.8
Interest and dividends, paid and received	(0.2)	(0.7)	(2.2)	(2.6)	(4.0)
Taxation	(0.1)	(0.2)	(0.2)	(2.0)	(2.4)
Investing activities	(1.6)	(8.2)	0.1	(3.2)	6.1
Net cash (outflow)/inflow before management of liquid resources and financing	(3.5)	(11.0)	4.3	7.1	17.5
	pence	pence	pence	pence	pence
Per ordinary share					
Earnings/(losses)	(41.3)	(0.1)	19.9	2.6	21.3
Earnings from continuing operations before exceptional items	(3.4)	6.3	14.6	9.5	18.9
Dividends	8.4	8.4	8.4	8.4	8.4
Net assets attributable to shareholders	183.0	187.7	198.7	186.0	193.1
Employees					
Average number of employees	1,619	1,551	1,773	1,674	1,537

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