Annual Report and Accounts 2001

Oxford Instruments plc

OXFORD INSTRUMENTS

Summary of Results

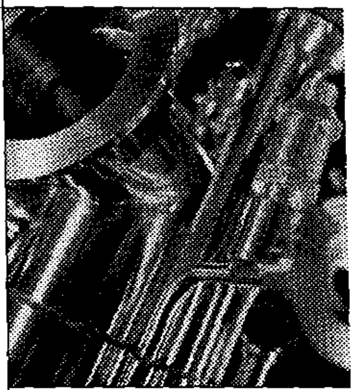
	2001 £ million	2000 £ million
Group turnover of continuing operations, excluding share of joint venture	**183.0**	151.0
Operating profit/(loss) of continuing businesses, excluding share of joint venture	**2.1**	(5.0)
Profit of continuing operations before exceptional items, interest and taxation	**6.5**	0.8
Exceptional items	**(1.4)**	(7.3)
Earnings attributable to shareholders from continuing businesses before exceptional items	**3.0**	0.2
Net assets employed	**86.9**	87.5
Closing net (borrowings)/cash	**(8.3)**	2.6

	2001 pence	2000 pence
Earnings per share from continuing operations, excluding exceptional items	**6.3**	0.5
Dividends per share	**8.4**	8.4
Net assets per share	**181.7**	183.0

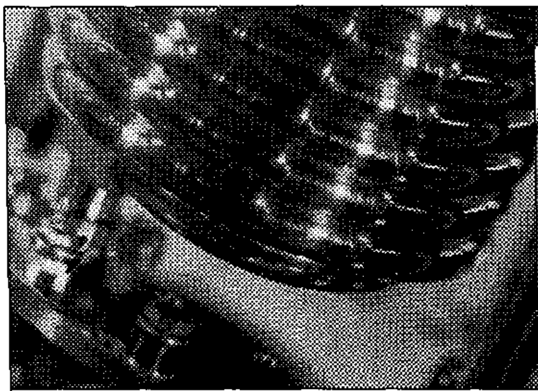
Oxford Instruments is a global leader in advanced instrumentation. Our products are used by customers all over the world in healthcare, semiconductor processing, scientific research and industrial quality control. Our customer base includes the world's major international companies as well as the leading research institutes.

Oxford Instruments brings together selected technology-based businesses that hold leading positions in global markets. We have recently restructured our organisation and are now delivering rapid improvements in operational efficiency within each business with the help of common key processes and resources. Through these changes we are creating an outstanding performance-driven organisation which delivers sustainable competitive advantage in our chosen growth markets.

Oxford Instruments is recognised as a world leader in several technologies, including the application of superconductivity, the creation of low temperatures, the production and detection of X-rays and in neurological measurements. We are proud of the expertise and dedication of our employees and of our culture of innovation through joint product development with our customers. We are committed to using our many strengths to create lasting value for our shareholders.



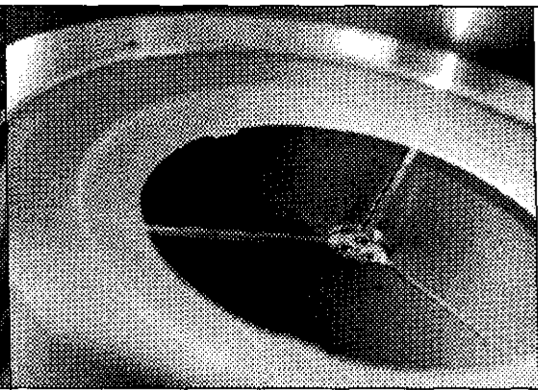
Superconductivity



We are the world leader in the supply of high magnetic field superconducting magnets and ultra-low temperature equipment for use in scientific research, chemical analysis (nuclear magnetic resonance) and various industrial applications. We are also the world leader in the supply of superconducting wire to magnet manufacturers, and we have a major field service organisation which supports the installed base of magnets.

Superconductivity	**2001 £ million**	2000 £ million
Turnover	**78.9**	62.2
Operating loss	**(0.7)**	(3.5)
Operating assets	**31.8**	36.8
Employees	**769**	607

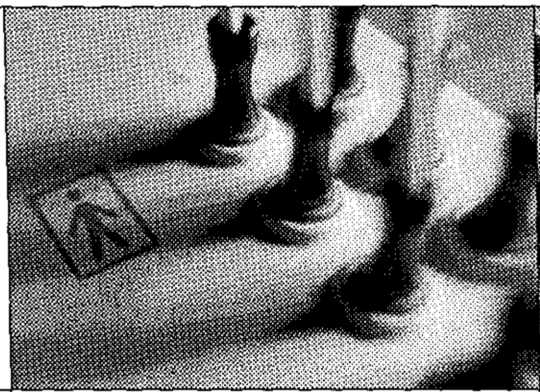
Analytical



Our Analytical business specialises in instruments and components for industrial and laboratory analysis of a wide range of industrial materials using the techniques of X-ray detection and nuclear magnetic resonance. We also design and supply products for the deposition and etching of materials, using plasma processing, for markets including telecommunications and optoelectronics. Customers include major manufacturing companies world-wide.

Analytical	**2001 £ million**	2000 £ million
Turnover	**65.6**	49.5
Operating profit/(loss)	**2.8**	(1.0)
Operating assets	**35.9**	30.5
Employees	**556**	490

Medical



Our Medical business is an international supplier of measuring instruments and accessories for the routine monitoring of certain physiological properties of the human body. We are a leader in the supply of products for the detection of muscle and nerve impulses, including the specialised needle electrodes needed to make these measurements. We also produce equipment to monitor heart function in humans throughout life and before birth. Customers are hospitals and doctors' clinics world-wide.

Medical	2001 £ million	2000 £ million
Turnover	**38.6**	39.3
Operating profit/(loss)	**0.1**	(0.5)
Operating assets	**20.6**	20.1
Employees	**316**	333

Oxford Magnetic Technology (OMT)

Our joint venture partnership between Oxford Instruments (49%) and Siemens (51%) manufactures superconducting magnets used in magnetic resonance imaging (MRI) bodyscanners. These are used in hospitals to aid diagnosis through imaging of the human body. Customers include Siemens and other major MRI system integrators such as Marconi and Toshiba.

OMT (100%)	2001 £ million	2000 £ million
Turnover	**99.5**	100.6
Operating profit	**8.9**	11.8
Operating assets	**21.2**	12.7
Employees	**544**	500

Financial summary
The encouraging progress demonstrated in the first half of last year has continued in the second half. We achieved record orders in the year of £201 million (2000 £169 million) and an operating profit for the wholly owned continuing businesses of £2.1 million (2000 £5.0 million loss) in the year on turnover of £183 million (2000 £151 million). All businesses were profitable in the second half of the year.

Total pre-tax profits for continuing businesses of £5.7 million (2000 £1.0 million) included an interest charge of £0.8 million and a reduced contribution to operating profits from Oxford Magnet Technology, our joint venture body-scanner business with Siemens, of £4.4 million (2000 £5.8 million) on OMT turnover unchanged at £100 million. As expected, the tax rate of 47% on the profits of continuing businesses is significantly higher than normal as a result of losses in the UK which cannot be offset against profits elsewhere, particularly the USA.

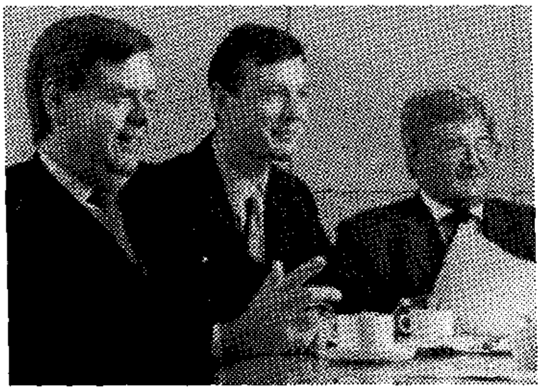
Closing net borrowings were £8.3 million, resulting from a cash outflow of £10.9 million during the year which included restructuring costs of £4.7 million and the acquisition for £3.9 million in October 2000 of the Austin Scientific cryogenics business, which is performing to plan. Working capital improved from 26% to 24% of sales, reflecting continued progress in improving operational efficiency.

The Directors have recommended a final dividend of 6.0p, making a total of 8.4p, unchanged from last year.

Progress in reshaping the business
The restructuring of our major UK businesses initiated in September 1999 is delivering improved service to customers from a lower cost base. Together with the completion of three major site consolidations during the year, we have introduced a range of operational improvement programmes and cultural change. These are already delivering the forecast performance enhancements in the businesses, generating a substantial profit improvement in the past year. We expect further progress in the current year. The majority of the costs of the restructuring were provided in 1999/2000, but as announced at that time a final exceptional charge against profits of £1.4 million has been taken in 2000/2001.

In addition to our operational improvements we have focussed the businesses during the year by moving out of a number of unprofitable business areas. We have also sold two product lines which did not fit with our long-term strategy.

We have converted our investment in another product line into a stake in Oxford Diffraction, a new business supplying instrumentation to the biology research market. A similar model was used earlier in the year when we contributed key technology and contracts into a new company, Oxford Biosignals, in exchange for a minority interest in that company. During the year we also concluded a licence agreement for proprietary technology to a major oil exploration business. We intend to continue broadening the range of commercial outlets for our innovative capabilities by working with others in areas which fall outside our focussed strategy.



Left to right; Nigel Keen, Chairman, Andrew Mackintosh, Chief Executive and Martin Lamaison, Financial Director.

"Our staff have worked hard through a period of rapid and significant change over the past year and it is through their efforts that our recovery is on track. With their continued support the business is expected further to improve its position in its chosen markets over the coming year."

Nigel Keen Chairman

Our staff have worked hard through a period of rapid and significant change over the past year and it is through their efforts that our recovery is on track. With their continued support the business is expected further to improve its position in its chosen markets over the coming year.

Oxford Magnet Technology (OMT)

The initial 15-year term of the OMT joint venture with Siemens ends in September 2004 at which time the joint venture can be terminated at the option of either party. Siemens is both the controlling shareholder and biggest customer of OMT. We have therefore initiated discussions with Siemens about its future strategy for OMT and how Oxford Instruments can contribute to the relationship. At this stage it is too early to say what the outcome of these discussions will be.

Prospects

We have continued to invest in the development of new products, spending £10.3 million last year, 5.6% of sales. Significant growth opportunities have been created by a number of new products recently launched. However we intend to maintain our focus on further operational improvement to ensure that we translate these new opportunities into commercial success.

The business entered 2001/2002 with a healthy order book equivalent to several months' turnover, as a result of record orders received last year. This strong order position provides a solid platform from which we expect to deliver further growth in profits from the wholly-owned businesses during the year. We also intend over the next few months to resolve the future of the OMT joint venture.

Oxford Instruments commands a leading position in a range of technically advanced markets in healthcare, industry and research which have high barriers to entry. We bring outstanding innovation, world-wide sales channels, shared key resources and an increasing level of operational excellence to these growing business opportunities. As our financial performance continues to improve, we are focussing on growth areas in attractive markets where we can apply our strengths to add real value to our customers and hence generate improved returns to our shareholders.

Nigel Keen Chairman

In last year's annual report, our Chairman said: "Our 'TopFlight' re-engineering programme is creating an organisation that can better meet customer needs in our markets. Our top priority is to succeed with this programme." How are we doing?

"New project management techniques are enabling our engineers to work more closely together to bring new products to market faster. Our new five year supply contract underlines the confidence we have in our partnership with Oxford Instruments."

Dr Ray Shaw Vice President & General Manager Varian NMR Systems USA

Operational improvements
We have during the year completed the final management changes and site relocations that followed from the announcement of our 'TopFlight' restructuring programme in September 1999. The purpose of these initiatives was to put in place a more effective organisational structure that could deliver major improvements in our service to customers through rapid increases in operational efficiency. I am pleased with the initial progress we have made on this in a number of areas.

Our small centrally co-ordinated procurement team is generating significant early savings by working effectively with the businesses and pooling their purchasing requirements. The team is also helping the businesses to manage their supplier relationships and materials logistics more effectively, helping to improve product quality and increase manufacturing flexibility.

We have made a positive start with our cross-business project to develop outstanding processes for the development and introduction of new products. This is a critical process for the long-term success of a technology-based business such as ours. Following intensive training, all businesses are using common project management techniques that enable us to manage complex projects more effectively. An early successful output from this programme has been the launch last year of our world-leading magnet for use in biological research and drug development.

Our cross-business approach to manufacturing improvement programmes has allowed us to make significant progress in refining a number of our business-critical manufacturing processes. Early successes in our Medical business are now being reproduced elsewhere.

Our world-wide sales infrastructure is one of our many strengths. We have now started a series of projects to explore the increased use of information technology to improve the efficiency of our sales channels. Projects include new sales management software, remote access to key data, a pilot project in e-commerce and the first phase of our new web site.

We have over the past two years installed a new integrated management information system in four of our five major UK sites. This already provides a powerful platform for the businesses to use to improve their efficiency. We intend to increase the level of training and support in this area to enable further benefits to be realised.

Ongoing improvements in our operational effectiveness will lead to reduced lead times, improved product quality and more efficient use of capital. These programmes will therefore continue to receive the highest priority.

Superconductivity
Turnover has increased by 27% to £78.9 million and this has resulted in a small second-half profit and a significantly decreased operating loss, before exceptional items, of £0.7 million for the year. The total number of late projects in our magnets and cryogenics business has decreased by 60% during the year as we have worked through a significant proportion of our outstanding customer commitments. This has allowed us to bring down the customer lead times on a wide range of standard products. Key internal and field quality measures have shown significant improvements as our operational improvement programmes contribute to the recovery.

We have made significant progress in strengthening our links with our major customers. As a result, we now have long-term contracts in place for the supply of magnets, wire and after-sales MRI magnet service to all our major OEM customers.

We looked at procurement last year, stating: "We have centralised the co-ordination of our procurement activities, resulting in progressive cost savings." How has this benefited our customers?

"Oxford Instruments has developed a clear purchasing policy. It has rationalised its supplier base to create 'critical mass' driving up service and driving down price. This will obviously favour Oxford Instruments' customers, as they in turn will see a smoother supply chain."

Nick Bailey Sales Manager Northamber plc UK

Most importantly to the business going forward, we have made progress with the 'legacy contracts' which have been holding back profits. However, as forecast, there remains a small number of loss-making contracts which contain a significant level of technical risk and these will continue to absorb valuable resource until they are completed.

We have received multiple orders worth several million pounds for our world-leading 'Discovery' magnet for use in biological research and drug development first announced last summer. We are making excellent progress in scaling up for the efficient production of these leading-edge magnet systems to take advantage of our strong market position. A critical component of this magnet is the wire made by our successful US-based superconducting wire business.

The performance and integration of the Austin Scientific business, acquired in October 2000, has gone to plan. We have successfully recruited candidates into key positions, upgraded critical processes and information systems and have maintained good customer relationships during the transition. We are now beginning to explore ways of accessing the future growth opportunities that this business opens up for us.

Analytical

Strong orders were translated into increased turnover of £65.6 million, an increase of 33% over the previous year and this contributed to a return to profitability of this business. Operating profits, before exceptional items, of £2.8m were generated in the year, during which we completed the site consolidations and other business rationalisation announced in the previous year.

Orders from the semiconductor industry grew particularly strongly and our Plasma Technology business generated record results, recognised by a Queens Award for Enterprise. We are seeing a recent slowdown in orders from this market segment. However, we expect to maintain our investment in applications expertise and customer support infrastructure for this sector to benefit from the anticipated long-term growth in the demand for semiconductor devices made with the help of our products. We recently launched a major new product designed to manufacture 'DWDM' filters, which are used to enhance the efficiency of optical communications networks.

As a result of continued commitment to new product development during the year, we have also launched new products used for the routine chemical analysis of materials in three growing market segments: a high-end instrument for use in research laboratories, an on-line system for process control in the petrochemicals industry and a patented hand-held unit for portable use in materials analysis.

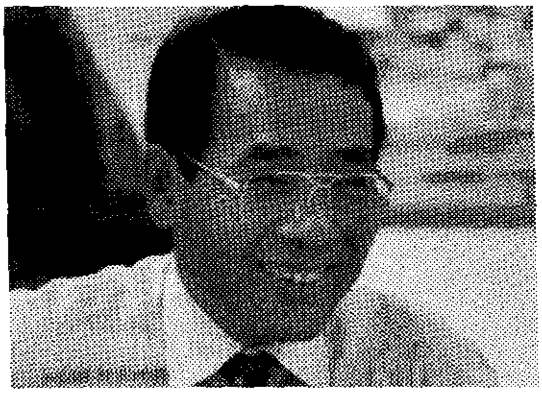
We have been encouraged by the initial sales volumes through new strategic partnerships, particularly with Horiba in Japan and CEM Corp. for the food industry in the USA. The product distributed by CEM Corp. recently won a 'best new product' award at the Pittsburgh Analytical Conference – the year's biggest industrial showcase for analytical equipment. We have also successfully broadened our base of key customers for our California based X-ray tube business, which had a year of profitable growth. Overall these new partnerships allow us to access different market segments through additional sales channels.

The ongoing priorities for the Analytical business are to increase operational efficiency now that site relocations are complete, enabling customer service levels to improve even further. The new products and relationships, together with the healthy order book, will help to offset any decline in the semiconductor business in the coming year.

Last year, discussing the better use of scarce resources, we said: "Management teams can take a broader view of where resources can best be used across their products." What has this meant in practice?

"I would like to thank the management and staff at Oxford Instruments for the way in which they have been able to satisfy our customer needs. Equally important, has been the way we have jointly used our resources to achieve a solid business relationship, which will help us both face the challenges of our market in Asia."

Dr K Ishida Senior Managing Director Horiba Limited Japan



Medical

As forecast at the half-year, sales in the second half increased by 28% over the first half, resulting in turnover for the year of £38.6 million, almost unchanged on the previous year. Following the site consolidation earlier in the year, overheads have been tightly controlled and the business recovered to make a small operating profit, before exceptional items, of £0.1 million in the year.

Investment in process improvement has contributed to improved volumes and efficiencies. This has enabled us to reduce significantly our lead times on a wide range of single-use products, allowing ex-stock delivery to customers world-wide.

Innovative new products are key to success in our three segments: neurology, obstetrics and cardiology. We have extended our market-leading range of neurology products with an innovative and versatile system. This allows routine tests on patients with muscle and nerve problems to be carried out both in the clinic and in the field, increasing efficiency for physicians. Orders for the range of products for sleep analysis supplied by our partner Compumedics increased in the second half, with a number of sales to leading institutions in Europe and the USA. We are levering our brand reputation and sales channel strengths in the cardiology sector with new product offerings for heart monitoring, ambulatory blood pressure and stress testing. Following a successful launch outside the USA earlier this year, our new 'Sonicaid' labour and delivery obstetrics monitor has now received formal approval from the US Food and Drug Administration (FDA), clearing the way for us to open up sales channels for this product in America.

Our Medical business received a clean bill of health from an audit by the US FDA earlier in the year and is now well placed to improve further its operational efficiency. The recent launch of a number of new products should ensure that the business enhances its future competitiveness.

Oxford Magnet Technology (OMT)

Our 49% share of the OMT joint venture with Siemens generated operating profits for the year down 25% to £4.4 million as a result of continuing market pressure on product margins and increased engineering spend. Turnover was unchanged at £100 million.

There has been a steady shift in the market towards the purchase of MRI bodyscanners with more intense magnetic fields which provide enhanced image quality. Systems using magnetic fields of 1.5 Tesla are now OMT's highest volume product and during the year volume deliveries of 3 Tesla magnets used for imaging the whole body and the head were started. In addition the business delivered to a research institute the first 4 Tesla magnet incorporating 'active shield' technology which reduces installation costs.

OMT continues to develop relationships with new customers in Asia, reflecting the increasing importance of this market and confirming the ability of the joint venture to attract third party customers. This additional volume is important in a market where growth comes from increased unit sales rather than any increase in prices.

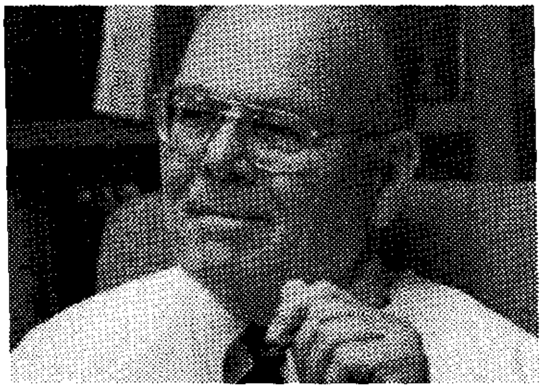
The future

Our staff have persevered during a challenging year and we have made substantial progress. We intend to keep our focus on achieving further operational efficiencies through the process improvement and cultural change programmes already running across our businesses.

We intend to match our reputation for innovation with a recognised track record in delivering commercial success through outstanding execution and a culture which expects and recognises excellent performance. This will enable us to deliver further improvements in the profitability of our existing businesses and create an organisation with sustainable competitive advantage. We can then apply these strengths to create value for our shareholders by targeting further attractive opportunities in growth markets.

Andrew Mackintosh Chief Executive

In the annual report last year we said: "We have a major programme aimed at bringing key manufacturing processes under control. Meanwhile each business is also reviewing the order handling process to reduce delivery times." How has this improved our service to customers?



"I am very dependent upon receiving from the New York office of your medical business a prompt service from Oxford Instruments. The turnaround time and reception I get each time I order a product is simply outstanding. You have made significant improvements in your service to us consumers."

Frank L Cantrell MD Doctor USA

Trading results

Group turnover for continuing operations for the year to 31 March 2001 of £183.0 million was £32.0 million higher than the previous year, reflecting a year on year increase in orders of £35.1 million. The Group operating profit of the continuing operations was £6.5 million, before exceptional items and interest, up £5.7 million on the previous year. The operating profit improvement of the wholly owned businesses of £7.1 million was offset by the reduction in the Group's share of the OMT joint venture's operating profit of £1.4 million.

The results summarised by individual businesses are set out in Note 2 on the Financial Statements.

Discontinued operations include both the operations of the cathodoluminescence and accessories business sold in June 2000 and the activities of the Accelerator Technology business, including the beamlines business sold in January 2001, which traded as a separate entity within the Group until the reorganisation in September 1999.

Turnover

Sales of the wholly owned businesses to overseas customers of £162 million, including sales by overseas businesses of £132 million, represented 88% of total Group turnover. UK exports of £91 million produced a net benefit to the UK balance of payments of £78 million, after deducting imports of £13 million. Turnover by region is shown in the chart on page 17.

Exceptional items

The exceptional items in the year relate to the final costs incurred in the reorganisation of the Group's UK based businesses into a simplified operational structure and the business improvement programmes announced in September 1999. These exceptional costs, which turned out to be £0.2 million lower than the extra £1.6 million forecast last year, do not include any future profit or loss on the disposal of properties which have become surplus as a result of the reorganisation.

Joint venture

The Group's 49% shareholding in Oxford Magnet Technology Limited (OMT) has been accounted for in accordance with FRS 9 'Associates and joint ventures'. Under this standard the turnover of the Group is shown with and without the Group's share of the sales of OMT. After adjustment for trading between OMT and the Group, as shown in Note 5 on the Financial Statements, the Group's share of OMT's turnover amounted to £36.8 million.

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

The cash dividend received from OMT in December 2000 of £3.7 million is shown separately in the Group Cash Flow Statement. The current policy of the Board of OMT is to recommend 100% distribution of annual earnings to its two shareholders payable in December each year.

Interest

Net interest payable was £0.8 million, down £1.0 million, reflecting the swing from net cash to net borrowings at the Group and the increase in the net borrowings of the joint venture.

Tax

The relatively high tax rate of 47% on the profits of the continuing businesses reflects the combination of taxable trading profits in the USA and unrelieved taxable losses from trading operations in the UK. The exceptional costs and the losses of the discontinued businesses also represent unrelieved UK tax losses. The UK losses will be carried forward to offset against taxable UK profits in future years.

Employees
The number of employees at 31 March 2001 was 1,641 compared with 1,517 at 31 March 2000 and 1,788 at 31 March 1999. These figures reflect the reduction in headcount as a result of restructuring of the UK businesses, offset by increases in expanding businesses.

Accounting policies
There have been no material changes in accounting policies during the year.

Exchange rates
If the same exchange rates as those experienced in the year to 31 March 2000 had prevailed in the year to 31 March 2001, turnover of continuing businesses would have been £7.4 million lower at £175.6 million and Group operating profit, before exceptional items and interest, would have reduced by £1.4 million to £5.1 million. This does not allow for the volume effect when competing for business against non-sterling competitors. The principal exchange rates used to convert foreign currencies are set out in Note 35 on the Financial Statements. Our overall policy of selling forward net currency receivables provides short term predictability but not long term protection from sterling movements against other currencies.

Balance sheet
In accordance with FRS 10, negative goodwill arising from the purchase in 1997 of the Vickers neurology business is being amortised over 5 years and positive goodwill arising from the purchase of Austin Scientific Company during the year is being amortised over 8 years. An analysis of tangible fixed assets is shown in Note 15 on the Financial Statements. The increase in net book value of fixed assets of £2.9 million included expenditure on additional demonstration laboratory equipment and extensions to existing factories to allow release of properties for disposal.

The Group continues to own all its factories in the UK and the US, except for some of the facilities for Medical in Old Woking, UK and for Analytical in Clevedon, UK and Scotts Valley, California, USA. Overseas sales offices are all leased. Following the rationalisation of the UK factories, both long leasehold properties in Abingdon and the freehold factory in Oxford are in the process of disposal, as is the factory in Oak Ridge, Tennessee. The net book value of these properties is £9.0 million.

Outstanding lease and hire purchase obligations in respect of other fixed assets have increased from the prior year as the Group has entered into a contract hire arrangement to cover the replacement of vehicles in the UK, as they become due for renewal.

Net working capital, excluding net borrowings, taxation and accrued dividends increased by £2.5 million to £44.5 million. Overall the net working capital to sales ratio reduced by 2% to 24%, equivalent to a reduction in working capital of £3.7 million.

The Group ended the year with net borrowings of £8.3 million, made up of cash and short term deposits of £1.6 million offset by bank loans and overdrafts of £9.9 million.

Cashflow
The Group began the year with net cash of £2.6 million and ended the year with net borrowings of £8.3 million, an outflow of £10.9 million. This included non recurring outflows of £4.7 million on the final Group reorganisation costs, as well as £1.1 million on extensions to existing factories to allow the release of surplus properties for disposal and a net £1.9 million on acquisitions less disposals. In addition there was an outflow on working capital of £2.6 million reflecting the higher business volumes.

Disposals of £2.0 million included the sale of the cathodoluminescence and accessories business and the beamlines business, whilst acquisitions of £3.9 million included the croygenic pumps, coolers and compressors business of Austin Scientific Company (see Notes 17 and 18 on the Financial Statements).

Financing

At the year end the Group's bank facilities were more than sufficient for its short term needs. In addition to the multi-currency overdraft and short term borrowing facilities of £30 million available to the Group at 31 March 2001, the Group had contractually committed unsecured facilities of £10 million (or the foreign currency equivalent) at the financial year end. At 31 March 2001 £5 million of the committed facilities and £5 million of the overdraft and short term borrowing facilities were in use. There is no known restriction on the Group's ability to transfer funds within the organisation.

The Group has contracted by guarantee to secure 49% of the external borrowings of the Oxford Magnet Technology joint venture up to a maximum of £7.6 million. At the year end the joint venture had total net borrowings of £13.7 million, of which the Group's guarantee covered £6.7 million.

There was no change in the capital structure of the Company during the year.

Treasury management

The Group Treasury function provides a service to all Group businesses. Group Treasury is responsible for sourcing and structuring all borrowing requirements. It also manages the location and investment of surplus funds which, when appropriate, are invested predominantly in short term deposits, up to 12 months, with major financial institutions meeting the credit criteria approved by the Board. At the present time the Group has decided not to enter into any arrangements to hedge against future movements in interest rates.

However, given the high level of exports, the Group faces currency exposures on trading transactions undertaken by its UK subsidiaries in foreign currencies (the transaction exposure). The Group has a policy of selling forward known and forecast net foreign currency receivables for up to 12 months ahead. Note 32 on the Financial Statements shows the value at 31 March 2001 of contracts for forward sale of the major currencies in which the Group trades.

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

Shareholders' return

Earnings and dividends

The profit on ordinary activities before tax of £2.7 million was made up of a trading profit £5.7 million from continuing operations, a loss on exceptional items of £1.4 million and net loss from discontinued operations of £1.6 million. After a tax charge of £2.7 million the net profit for the financial year was £24,000.

The Group's proposed final dividend of 6.0 pence per share (2000 6.0 pence), payable on 4 October 2000, makes a total dividend for the year of 8.4 pence, the same as last year.

Share price

The market price of the Ordinary shares at the end of the financial year was £1.25, compared with £1.57 at the beginning of the year. The highest and lowest prices recorded in the financial year were £2.12 and £1.25 respectively. At the close of trading on 6 June 2001 the share price was £1.85.

Shareholders' funds

Shareholders' funds at the year end were £86.9 million, or £1.82 per share. Against these shareholders' funds, the net borrowings of £8.3 million represented gearing of 9%. After provision for the proposed final dividend, distributable reserves of the Company were £83.7 million.

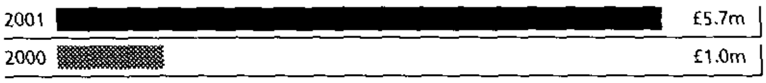
Martin Lamaison Financial Director

Orders (continuing, wholly owned businesses)

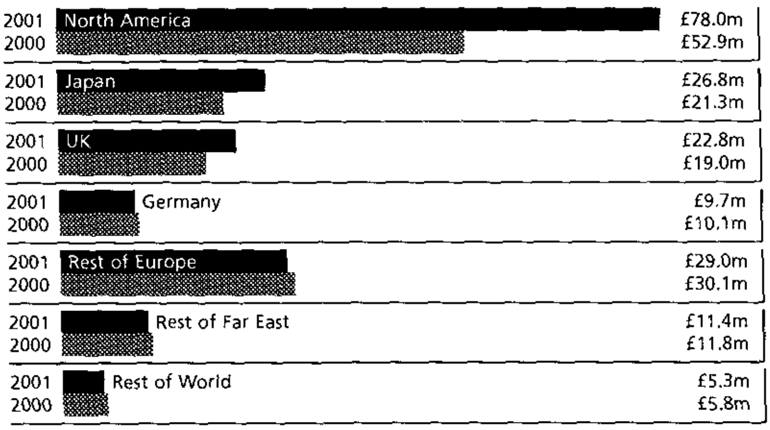
Turnover (continuing, wholly owned businesses)

Operating profit/(loss) (continuing, wholly owned businesses, excluding exceptionals)

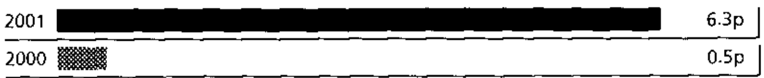
Pre-tax profit (continuing businesses, excluding exceptionals)



Group turnover by region (continuing businesses)

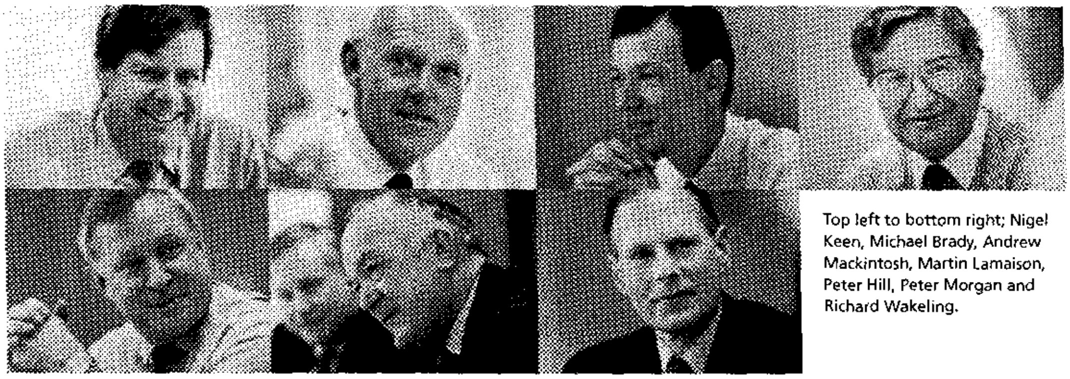


Earnings per share (continuing businesses, excluding exceptionals)



Dividends per share

Net assets per share



Top left to bottom right; Nigel Keen, Michael Brady, Andrew Mackintosh, Martin Lamaison, Peter Hill, Peter Morgan and Richard Wakeling.

Directors

The following Directors served throughout the year except as noted:

N J Keen FCA, Chairman
Professor Michael Brady FREng FRS, Deputy Chairman
A J Mackintosh, Chief Executive
M Lamaison FCA, Financial Director and Company Secretary
P Hill
P Morgan
R K A Wakeling Barrister FCT
Sir Martin Wood OBE FRS Hon FREng DL,
(Deputy Chairman and Director until 1 August 2000)

Chairman

Nigel Keen, 54, Independent Director, joined the Board in 1999 and is Chairman of the Cygnus group of companies, established in 1984. He is Chairman of The Laird Group plc, Axis-Shield plc and Deltex Medical Group plc.

Deputy Chairman

Professor Michael Brady, 56, Independent Director, joined the Board in 1995 and is BP Professor of Information Engineering at Oxford University. He is a Director of AEA Technology plc, Guidance and Control Systems Limited, Oxford Medical Image Analysis Limited and Oxiva Limited.

Executive Directors

Andrew Mackintosh, 45, was appointed Chief Executive in February 1998. He joined the Group in 1984 after an early career with Courtaulds, EMI and in university research, including a year spent in Japan. He has a BSc in Chemical Physics and PhD in Solid State Physics.

Martin Lamaison, 57, joined the Group in 1985 as Group Financial Director. Previously he was with Glaxo Wellcome plc and BOC Limited. He has a BA in Industrial Economics.

Non-Executive Directors

Peter Hill, 48, Independent Director, joined the Board in 1999 and is President of Invensys Air Systems, an operating division of Invensys plc. He is the former Head of Strategic Planning for BTR plc and was subsequently Director of Merger Integration during the successful merger of BTR plc and Siebe plc to form Invensys plc. He was an Executive Director of Costain Group plc from 1992 to 1997.

Peter Morgan, 65, Independent Director, joined the Board in 1999. He is Chairman of Baltimore Technologies plc and a Director of Firth Holdings plc and IDP SA (France). He is a member of the Council of Lloyd's and a Director of the Association of Lloyd's Members. He is a former Chairman of SWALEC plc, NPI, Pace Micro Technology plc and KSCL Limited; a former Executive Director of IBM (UK) plc and IBM Europe and a former Director General of the Institute of Directors.

Richard Wakeling, 54, Senior Independent Director, joined the Board in 1995 and is the Chairman of Polar Capital Technology Trust plc. He is also a Non-Executive Director of Logica plc and other companies. He was formerly Chief Executive of Johnson Matthey plc.

Board Committees

Audit: Richard Wakeling, Chairman; Professor Michael Brady; Peter Hill; Nigel Keen; Peter Morgan
Remuneration: Nigel Keen, Chairman; Professor Michael Brady; Peter Hill, Peter Morgan; Richard Wakeling
Nomination: Nigel Keen, Chairman; Professor Michael Brady; Peter Hill, Peter Morgan; Richard Wakeling

Advisers

Financial Advisers: JP Morgan plc
Stockbrokers: Cazenove & Co
Auditors: KPMG Audit Plc
Tax Advisers: Arthur Andersen
UK Solicitors: Laytons
US Counsel: Holland & Knight
Principal Bankers: Barclays Bank plc; First Union National Bank; HSBC Bank plc

Honorary President

Sir Martin Wood OBE FRS Hon FREng DL

Oxford Instruments plc

OXFORD INSTRUMENTS

The Directors present their Report and the Statement of Accounts of Oxford Instruments plc for the year ended 31 March 2001.

You will find enclosed the Notice of the Annual General Meeting of Oxford Instruments plc for 2001 which will be held at Oxford Instruments plc, Old Station Way, Eynsham, Oxon, OX29 4TL at 2.30pm on Tuesday 31 July 2001.

Principal activity and business reviews

The Company is the ultimate holding company of a group of subsidiary and associated undertakings ('the Group') engaged in the research, development, manufacture and sale of advanced instrumentation. The business is reviewed in the Chairman's Statement on pages 4 to 6, the Operating Review on pages 8 to 12 and the Financial Review on pages 14 to 16.

Acquisitions and disposals

During the year the Group acquired Austin Scientific Company, a manufacturer and repairer of cryopumps and helium compressors for research, medical and semiconductor markets based in Austin, USA, for a net cash consideration of $5.8 million (£3.9 million). Further the Group completed the disposal of its cathodoluminescence and accessories and its beamlines businesses both based in the UK for cash proceeds of £1.3 million and £0.7 million respectively.

Results and dividends

The results for the year are shown in the Group Profit and Loss Account on pages 28 and 29. 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 27 March 2001 makes a total of 8.4p per ordinary share for the year (2000 8.4p). Subject to shareholder approval, the final dividend will be paid on 4 October 2001 to shareholders registered at close of business on 7 September 2001.

Directors

Profiles of all the Directors, including the Non-Executive Directors, appear on page 18. All the Directors served on the Board for the whole year under review unless indicated otherwise.

Nigel Keen and Professor Michael Brady who retire by rotation, offer themselves for re-election. Nigel Keen and Professor Michael Brady have letters of appointment for three years, terminating on 24 February 2002 and 31 July 2001 respectively. Subject to shareholder approval, it is intended to renew Professor Michael Brady's appointment for a further three years.

Directors' interests

Save as disclosed on page 26 the Directors had no beneficial interest in the Company's issued share capital on the given dates.

As a Director of Oxford Instruments Pension Trustee Limited, Trustee of the Company's UK Pension Scheme, Martin Lamaison had a non-beneficial interest in 167,500 ordinary shares at 31 March 2001 (2000 167,500). Further as a Trustee of the Company's Share Participation Scheme, Martin Lamaison had a non-beneficial interest in 101,875 ordinary shares at 31 March 2001 (2000 219,377). There were no changes in these holdings between the year end and 6 June 2001.

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

Share capital

During the year no shares were re-purchased and cancelled (2000 nil) and no new shares were issued (2000 60,300) under the Company's Share Participation Scheme, Executive Share Option Scheme and Savings Related Share Option Scheme.

Substantial shareholdings

The following are the beneficial interests of 3% or more and any non-material interests of 10% or more, of which the Directors are aware, of the Company's issued ordinary share capital, the only class of voting capital, at 6 June 2001:

	Shares 000	% of Total
Fidelity Investments	5,768	12.1
Aberforth Partners*	5,030	10.5
Sir Martin and Lady Audrey Wood	3,506	7.3
Phillips and Drew Life Limited	2,774	5.8
Global Asset Management Limited	2,593	5.4
3i Group plc	1,710	3.6

*of which Aberforth Smaller Companies Trust has a beneficial interest of 2,070,000 shares (4.3%).

Employee involvement and development

The Group shares with employees information on business activities, priorities and performance through regular team briefings and news bulletins. Additionally, each employee receives a copy of the Annual Report and Accounts. The Group fosters an open culture, in which everyone's views and contributions are encouraged and respected and there is equality of opportunity irrespective of race, sex or disability.

The Group is committed to managing actively, individual and team performance and developing and valuing core skills. By nurturing a tradition of innovation and accelerating the ongoing development of the skills required to deliver customers' present and future needs, the Group will support and grow its business.

Social and environmental considerations

The Group's operations impact on the local communities in which it operates on both a social and environmental level. In addition to the creation of employment, the Group provides financial support to various charitable organisations including certain local community based beneficiaries. Total donations made by the Group during the year amounted to £44,000 (2000 £26,000). There were no political donations. The main UK payroll operates a gift aid system to facilitate charitable donations by employees.

The Board is responsible overall for environmental policy and procedures. Responsibility for implementing and maintaining effective environmental management practices is assigned to the operational management teams. The Directors believe that the majority of the manufacturing processes have minimal environmental impact, but where any potential risks exist these are subject to tight controls. These are monitored regularly and are subject to review under the Group's internal control procedures.

As part of the Group's ongoing improvement processes, ways of improving efficiency so as to minimise the use of materials, energy and generation of waste and harmful emissions are constantly sought. In addition there are a number of recycling initiatives operated at site level throughout the Group, and in particular the recovery of helium gas.

Payment of suppliers

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

Trade creditors of the Company and the Group at 31 March 2001 were equivalent to 35 days and 45 days purchases respectively, based on the average daily amount invoiced by suppliers to the Company and Group during the year.

Annual General Meeting

A resolution to re-appoint KPMG Audit Plc as Auditors will be proposed at the Annual General Meeting on 31 July 2001. Further it is proposed to renew the authority to purchase in the Stock Market up to 10% of the Company's issued share capital. The Directors will implement such purchases, which will reduce the issued share capital of the Company, only if they are satisfied that these purchases are in the best interests of the Company and its shareholders and that the effect will be to increase earnings per share.

It is also proposed to alter the Company's Articles of Association to allow for the appointment of proxies by electronic means as well as the current postal method, to allow notices and documents to be served electronically in addition to postal service and to make certain other changes which are set out in the Notice of the Annual General Meeting.

During the year the Remuneration Committee of the Board has reviewed all the Company's share schemes. The conclusions were that the existing Save As You Earn Share Option Scheme should continue; a new type of Inland Revenue approved scheme known as the All Employee Share Ownership Plan should be established to replace the existing Share Participation Scheme in due course; no further options should be issued under the Executive Share Option Scheme and a new proposed Executive Share Option Scheme with more demanding targets should replace it; and there should only be limited use of the existing Senior Executive Long Term Incentive Scheme in the future. The attached Notice of Annual General Meeting includes resolutions seeking shareholder approval for these changes and contains detailed explanatory notes.

By Order of the Board
Martin Lamaison
Company Secretary
6 June 2001

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.

Compliance

During the period under review, the Company has applied the principles set out in the Combined Code on corporate governance and has complied throughout the year with each of the provisions set out in Section 1 of the Combined Code, except where it has been explained in the Remuneration Report on page 24 in respect of provisions B.1.6 and B.1.7. These provisions relate to the inclusion of cash bonuses for pension purposes and the length of notice in service contracts.

Principles of corporate governance

Board of Directors

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

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

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

The Company's Articles authorise any Director to take independent professional advice if necessary at the Company's expense and have access to the advice and services of the Company Secretary, or if appropriate, to 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.

Board committees

Membership of Board Committees is given on page 18.

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

The Remuneration Committee, chaired by Nigel Keen, is responsible for recommending to the Board the remuneration packages for Executive Directors and the bonus and share option strategy for the Group's executive management. The Remuneration Report of the Board is set out on page 24.

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

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

Shareholder relations

All shareholders are invited to participate in the Annual General Meeting (AGM). At the 2000 AGM the chairmen of the audit, remuneration and nomination committees were available to answer questions. The results of proxy votes were declared at the 2000 AGM after each resolution had been dealt with on a show of hands and this practice will be continued at future General Meetings.

All major announcements issued through the Stock Exchange Announcements Office are now made available promptly on the Company's website (www.oxford-instruments.com).

Internal control

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

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

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

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

- a formal schedule of matters is reserved to the Board for decision with appropriate delegation of authority throughout the management structure;
- the Group's management structure is based on the identification of separate businesses for each of the Group's activities; the heads of these businesses together with the Chief Executive and Group Financial Director form the Group's Management Top Team; there are clearly defined lines of management responsibilities at all levels up to and including the Group Board; the Group's accounting and reporting functions reflect this organisation;
- authorisation limits are set at appropriate levels throughout the Group;
- the Board reviews strategic issues and options formally once a year and during the year as appropriate;
- an annual financial budget is approved by the Board, followed by monthly consideration by the Board of actual monthly results compared to budget and prior year performance;
- monthly rolling reforecasts, covering the next six months for orders, turnover, operating profit and cash, are prepared by each business;
- the Board approves all acquisition and divestment proposals, and there are established procedures for planning, approval and monitoring of capital expenditure;
- the Board maintains an internal control framework defining for each control area the reporting mechanics and the responsibility;
- the Board reviews regularly matters relating to internal control;
- each Group site, except for representative offices, now submits an annual self assessment internal control questionnaire indicating action plans to remedy any significant control weaknesses that are identified;
- 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 or by the external auditors based on a standardised Group format but involving random testing;
- individual financial executives report to their own operational head but there is a well established and acknowledged functional reporting relationship through to the Group Financial Director;
- all requests to quote for material fixed price contracts are reviewed by a multi-disciplinary team to assess both technical and financial risk and to try to ensure an appropriate balance between risk and reward; however, no procedure can guarantee the avoidance of losses on fixed price contracts of a technical nature.

Going concern

After making enquiries, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason they continue to adopt the going concern basis in preparing the Financial Statements.

Remuneration policy

The Company's remuneration policy is to ensure that remuneration packages are sufficient to attract, retain and motivate Executive Directors of the quality required.

Executive Remuneration

Remuneration committee

The Committee consists of Nigel Keen (Chairman), Professor Michael Brady, Richard Wakeling, Peter Hill and Peter Morgan, all Non-Executive Directors, having no personal financial interest other than as shareholders in the matters to be decided, no potential conflicts of interest arising from cross-directorships and no day-to-day involvement in running the business. The principal function of the Committee is to define the Company's policy on the remuneration, benefits and terms of employment for each individual Executive Director. The committee 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 arrangements

Full details of the Directors' remuneration, pensions, shareholdings and share options are set out on pages 25 and 26.

Executive Directors

The remuneration arrangements for Executive Directors are currently as follows:

Salary

Basic salary is considered in relation to similar sized roles in comparable organisations as advised by independent benefits consultants.

Annual bonus

The target annual bonus is set at a percentage of basic salary on a sliding scale which is based so as to pay between 35% and 50% in relation to the achievement of targeted economic added value, with a part receivable on the achievement of certain specific personal goals. Bonuses are paid after the completion of the year end statutory audit. Discretionary bonuses may also be paid from time to time to reflect special achievements.

Long term incentive schemes

The Executive Directors participate in the SAYE and Share Participation Schemes on the same basis as other employees. The Executive Directors are no longer granted options under the Executive Share Option Scheme (ESO) but receive options under the Senior Executive Long Term Incentive Scheme (SELTIS) on a regular basis. SELTIS options are exercisable at nil consideration between three and seven years from the date of grant of the options provided that earnings per share increase by not less than 4% per annum above RPI over the performance period. The cost of the shares purchased to support these options is being written off over the initial three year performance period.

Pension arrangements

Executive Directors are members of the Oxford Instruments Pension Scheme. For the year to 31 March 2001 contributions were paid to the Scheme by both the Company and the Directors, being 10.5% and 6% of pensionable salary respectively. Pensionable salary is the Director's basic salary plus any cash bonuses which are normally deemed to be an integral part of remuneration unless specified otherwise by the Remuneration Committee. However the Committee has agreed that the policy of including bonuses as part of personable salary will be reviewed for any future Executive Director appointments. In addition contributions are paid by the Company to an Executive Pension Scheme to provide additional retirement benefits.

Other benefits

Other benefits include car expenses and allowances and participation in the Company's private health insurance scheme.

Non-Executive Directors

Non-Executive Directors receive fixed fees agreed by the full Board plus re-imbursement of expenses incurred in attending Board and other meetings. They do not receive any other form of remuneration or share options.

Service contracts

The length of notice in the Executive Directors' contracts is two years. This reflects the Remuneration Committee's policy to provide appropriate and competitive service contracts having regard to the industry in which the Group competes. However this policy will also be reviewed on the appointment of a new Executive Director.

The 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. However, Andrew Mackintosh and Martin Lamaison are entitled to two year's total annual remuneration if their employment is terminated within three years of change of control of the Company.

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. Fees paid for these services may be retained by the Executive Director concerned. There are currently no such appointments.

Nigel Keen
Chairman of the Remuneration Committee
6 June 2001

Directors' remuneration

The basis of Executive Directors' remuneration arrangements is reviewed in the Remuneration Report on page 24. Directors' remuneration for the year was as follows:

	Salary £000	Annual bonus £000	Benefits (see note 1) £000	Total remuneration 2001 £000	2000 £000
Executives					
Andrew Mackintosh, Chief Executive	195	29	13	**237**	226
Martin Lamaison, Financial Director	150	15	12	**177**	175
	345	44	25	**414**	401
Non Executives					
Professor Mike Brady	25	–	–	**25**	25
Peter Hill	25	–	–	**25**	7
Nigel Keen	60	–	–	**60**	45
Peter Morgan	25	–	–	**25**	7
Richard Wakeling	25	–	–	**25**	25
Sir Martin Wood	11	–	2	**13**	38
Total	516	44	27	**587**	548

(1) Benefits include company car, fuel and medical cover

As shown above Andrew Mackintosh was the highest paid Director for the year under review. His total remuneration was £237,000 (2000 £226,000). During the year no options made to Directors under the long term incentive scheme were exercised (2000 nil).

Sir Martin Wood retired as a Director on 1 August 2000.

Directors' pensions

The Executive Directors participate in the Oxford Instruments Pension Scheme, a defined benefit pension arrangement sponsored by the Company. This Scheme provides benefits based on earnings at or near retirement and is funded via a separate trust. In accordance with Scheme rules earnings for this purpose include salary and annual bonus (unless otherwise specified by the Remuneration Committee). In addition the Directors participate in a defined contribution 'top-up' arrangement providing a lump sum at retirement and also an additional capital sum of one times the member's salary for death before retirement.

The following table shows the compulsory member's contributions, the increase in accrued entitlement during the year in excess of inflation and the accrued entitlement at the end of the reporting period, as well as the Company's contribution to the 'top-up' arrangements:

	Age as at 31 March 2001 years	Accrued years of service years	Member's contributions during the year £000	Additional annual pension earned during the year in excess of inflation £000	Accrued annual entitlement at year end £000	Top-up contributions paid by the company 2001 £000	2000 £000
Andrew Mackintosh	45	16	12	5	62	**13**	12
Martin Lamaison	57	16	9	2	49	**13**	13

All benefits are due at age 60. 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 3% per annum subject to any applicable statutory requirements. The accrued annual entitlement of Andrew Mackintosh, the highest paid Director, at 31 March 2000 was £55,000.

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 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.

Shareholdings

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

	2001 Shares	2000 Shares
Professor Michael Brady	**2,500**	2,500
Peter Hill	–	–
Nigel Keen	**35,000**	35,000
Martin Lamaison	**38,621**	38,621
Andrew Mackintosh	**47,318**	47,318
Peter Morgan	**10,000**	10,000
Richard Wakeling	–	–

Options

Directors' interests in options under the Senior Executive Long Term Incentive Scheme (SELTIS), the Executive Share Option Schemes 1985 and 1995 (ESO) and the Savings Related Share Option Schemes 1985 and 1995 (SAYE) and in individual options were:

			Number of Options during the year						
	Scheme	2001	Granted	Exercised	Lapsed	2000	Weighted exercise price	Date for earliest exercise	Date for latest exercise
Andrew Mackintosh	ESO	**30,000**	–	–	–	30,000	£3.93	09/12/96	27/11/05
	SAYE	–	–	–	(1,227)	1,227			
	SAYE	**5,480**	–	–	–	5,480	£2.73	01/02/01	31/07/04
	SAYE	**654**	654	–	–	–	£1.48	01/02/04	31/07/04
	SELTIS	**139,765**	44,000	–	–	95,765	nil	12/07/99	20/12/07
	Individual	**100,000**	–	–	–	100,000	£2.95	06/03/03	06/03/08
Martin Lamaison	SAYE	–	–	–	(1,227)	1,227			
	SAYE	**5,281**	–	–	–	5,281	£3.19	01/02/02	31/07/05
	SAYE	**130**	130	–	–	–	£1.48	01/02/04	31/07/04
	SELTIS	**124,000**	33,000	–	–	91,000	nil	18/12/98	20/12/07
	Individual	**50,000**	–	–	–	50,000	£2.95	06/03/03	06/03/08

There were no Directors' gains on exercise of share options during the year to 31 March 2001 (2000 £nil).

Under the terms of the Senior Executive Long Term Incentive Scheme options on 77,000 ordinary shares were granted on 21 December 2000 to Andrew Mackintosh and Martin Lamaison. The market price at date of grant was £1.85. The cost of shares purchased under this Scheme (see Note 16) is being amortised over three years. The charge against profit in the year to 31 March 2001 for all options for the Executive Directors under this Scheme was £111,000 (2000 £106,000).

The market price of Oxford Instruments plc shares on 31 March 2001 was £1.25 (2000 £1.57) and the range during the year was £1.25 to £2.12.

There were no changes in Directors' beneficial interests in shares and share options between the end of the financial year and 6 June 2001.

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 period.

In preparing those financial statements, the Directors are required to:
a) select suitable accounting policies and then apply them consistently;
b) make judgements and estimates that are reasonable and prudent;
c) state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
d) 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 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 28 to 53.

Respective responsibilities of Directors and Auditors
The Directors are responsible for preparing the Annual 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 are properly prepared in accordance with the Companies Act. 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 or the Listing Rules regarding Directors' remuneration and transactions with the Group is not disclosed.

We review whether the statements on pages 22 and 23 reflect the Company's compliance with the seven provisions of the Combined Code specified for our review by the Financial Services Authority, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

We read the other information contained in the Annual Report, including the corporate governance statement, 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. 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 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.

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 2001 and of the profit of the Group for year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG Audit Plc

KPMG Audit Plc
Chartered Accountants
Registered Auditor
London
6 June 2001

	Notes	Continuing operations £000	Exceptional items £000	Discontinued operations £000	**2001 £000**
Turnover	2,3				
Group and share of joint venture turnover		219,814	–	2,096	**221,910**
Less share of joint venture turnover	5	(36,775)	–	–	**(36,775)**
Group turnover *(including acquisitions of £2,615,000)*		183,039	–	2,096	**185,135**
Cost of sales	4	(130,473)	(445)	(2,927)	**(133,845)**
Gross profit/(loss)		52,566	(445)	(831)	**51,290**
Net operating expenses	4	(50,465)	(988)	(1,287)	**(52,740)**
Group operating profit/(loss)					
(including acquisition profit of £487,000)	2	2,101	(1,433)	(2,118)	**(1,450)**
Share of operating profit of joint venture	5	4,350	–	–	**4,350**
Total operating profit/(loss)					
Group and share of joint venture		6,451	(1,433)	(2,118)	**2,900**
Profit on sale of discontinued businesses before goodwill	18	–	–	599	**599**
Goodwill previously written off to reserves	18	–	–	–	**–**
Profit/(loss) before interest		6,451	(1,433)	(1,519)	**3,499**
Total net interest payable	6	(792)	–	–	**(792)**
Profit/(loss) on ordinary activities before tax	7	5,659	(1,433)	(1,519)	**2,707**
Tax on profit on ordinary activities	10	(2,683)	–	–	**(2,683)**
Profit/(loss) for the financial year attributable to shareholders		2,976	(1,433)	(1,519)	**24**
Dividends	12				**(3,942)**
Retained loss for the financial year	27				**(3,918)**

	Notes	pence	pence	pence	**pence**
Earnings/(losses) per share	13				
Basic earnings/(losses) per share		6.3	(3.0)	(3.2)	**0.1**
Diluted earnings/(losses) per share		6.3	(3.0)	(3.2)	**0.1**
Dividends per share	12				**8.4**

	Notes	Continuing operations £000	Exceptional items £000	Discontinued operations £000	2000 £000
Turnover	2,3				
Group and share of joint venture turnover		191,396	–	9,672	201,068
Less share of joint venture turnover	5	(40,378)	–	–	(40,378)
Group turnover		151,018	–	9,672	160,690
Cost of sales	4	(105,695)	(765)	(9,488)	(115,948)
Gross profit/(loss)		45,323	(765)	184	44,742
Net operating expenses	4	(50,317)	(6,582)	(2,532)	(59,431)
Group operating loss	2	(4,994)	(7,347)	(2,348)	(14,689)
Share of operating profit of joint venture	5	5,800	–	–	5,800
Total operating profit/(loss)					
Group and share of joint venture		806	(7,347)	(2,348)	(8,889)
Profit on sale of discontinued businesses before goodwill	18	–	–	2,855	2,855
Goodwill previously written off to reserves	18	–	–	(11,986)	(11,986)
Profit/(loss) before interest		806	(7,347)	(11,479)	(18,020)
Total net interest receivable	6	197	–	–	197
Profit/(loss) on ordinary activities before tax	7	1,003	(7,347)	(11,479)	(17,823)
Tax on profit/(loss) on ordinary activities	10	(767)	26	(906)	(1,647)
Profit/(loss) for the financial year attributable to shareholders		236	(7,321)	(12,385)	(19,470)
Dividends	12				(3,941)
Retained loss for the financial year					(23,411)

	Notes	pence	pence	pence	pence
Earnings/(losses) per share	13				
Basic earnings/(losses) per share		0.5	(15.5)	(26.3)	(41.3)
Diluted earnings/(losses) per share		0.5	(15.5)	(26.2)	(41.2)

	Notes	
Dividends per share	12	8.4

Group Statement of Total Recognised Gains and Losses year ended 31 March 2001

	2001 £000	2000 £000
Profit/(loss) for the financial year	**24**	(19,470)
Exchange differences on foreign currency net investments of the Group	**3,311**	28
Total recognised gains and losses for the financial year	**3,335**	(19,442)

The joint venture has no recognised gains or losses other than the share of profit for the year of £2,749,000 (2000 £4,058,000).

	Notes	Group 2001 £000	Group 2000 £000	Company 2001 £000	Company 2000 £000
Fixed assets					
Goodwill	14	**5,341**	2,798	–	–
Negative goodwill	14	**(758)**	(1,191)	–	–
Intangible assets	14	**4,583**	1,607	–	–
Tangible assets	15	**43,731**	40,815	**764**	1,045
Investments					
Share of gross assets of joint venture		**15,937**	11,772	–	–
Share of gross liabilities of joint venture		**(13,176)**	(8,069)	–	–
Net investment in joint venture		**2,761**	3,703	–	–
Other investments		**2,260**	1,321	**69,446**	68,367
Total investments	16	**5,021**	5,024	**69,446**	68,367
Total fixed assets		**53,335**	47,446	**70,210**	69,412
Current assets					
Stocks	20	**43,696**	36,114	–	–
Debtors	21	**66,325**	63,208	**53,282**	35,061
Cash at bank and in hand	22	**1,643**	5,709	**22,729**	32,844
		111,664	105,031	**76,011**	67,905
Creditors: amounts falling due within one year					
Bank loans and overdrafts	23	**(9,959)**	(3,105)	**(27,468)**	(17,678)
Other creditors	23	**(61,933)**	(53,284)	**(6,258)**	(6,401)
		(71,892)	(56,389)	**(33,726)**	(24,079)
Net current assets		**39,772**	48,642	**42,285**	43,826
Total assets less current liabilities		**93,107**	96,088	**112,495**	113,238
Provisions for liabilities and charges	24	**(6,178)**	(8,552)	–	(74)
Net assets employed		**86,929**	87,536	**112,495**	113,164

	Notes	Group 2001 £000	Group 2000 £000	Company 2001 £000	Company 2000 £000
Capital and reserves					
Called up share capital	26	**2,392**	2,392	**2,392**	2,392
Share premium account	27	**18,656**	18,656	**18,656**	18,656
Other reserves	27	**15,930**	15,930	**7,719**	7,719
Profit and loss account	27	**49,951**	50,558	**83,728**	84,397
Equity shareholders' funds	28	**86,929**	87,536	**112,495**	113,164

The financial statements were approved by the Board of Directors on 6 June 2001 and signed on its behalf by:

Andrew Mackintosh
Director

Martin Lamaison
Director

	Notes	2001 £000	2000 £000
Net cash outflow from operating activities	29	**(1,925)**	(1,563)
Dividend from joint venture		**3,691**	4,358
Returns on investments and servicing of finance	30	**(432)**	491
Taxation		**(250)**	(119)
Capital expenditure and financial investment	30	**(6,229)**	(4,062)
Acquisitions	17	**(3,911)**	(3,454)
Disposals	18	**1,983**	5,896
Equity dividends paid		**(3,953)**	(5,095)
Cash outflow before management of liquid resources and financing		**(11,026)**	(3,548)
Management of liquid resources	30	**9,500**	5,041
Financing	30	**–**	103
(Decrease)/increase in cash in the year		**(1,526)**	1,596

Reconciliation of Net Cash Flow to Movement in Net (Debt)/Funds year ended 31 March 2001

	Notes	2001 £000	2000 £000
(Decrease)/increase in cash in the year		**(1,526)**	1,596
Change in liquid resources	30	**(9,500)**	(5,041)
Translation difference		**106**	18
Movement in net funds in the year		**(10,920)**	(3,427)
Opening net funds		**2,604**	6,031
Closing net (debt)/funds	31	**(8,316)**	2,604

1 ACCOUNTING POLICIES

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

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

As defined in FRS 3 'Reporting Financial Performance' discontinued operations are material, clearly separate operations 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 2001. 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 and its interest in their net assets is included in investments in the consolidated balance sheet.

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 £3.3 million (2000 £3.8 million).

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 and associated costs given 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 long term contracts.

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.

1 ACCOUNTING POLICIES continued

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.

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.

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 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. Freehold land is not depreciated.

Deferred tax

Deferred tax is provided using the liability method. Provision is made for the tax effect of all timing differences for taxation and accounting purposes, but only to the extent that it is probable that liabilities will crystallise in the foreseeable future. There is no recognition of deferred tax assets to the extent that they exceed deferred tax liabilities.

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

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 eliminate the currency exposures that arise on sales and purchases denominated in foreign currencies.

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

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

2 SEGMENT INFORMATION – ANALYSIS BY BUSINESS

	Continuing operations £000	Exceptional items £000	Discontinued operations £000	**2001 £000**
Group turnover				
Superconductivity	78,862	–	2,096	**80,958**
Analytical	65,603	–	–	**65,603**
Medical	38,574	–	–	**38,574**
	183,039	–	2,096	**185,135**
Group operating profit/(loss)				
Superconductivity	(748)	(420)	(2,118)	**(3,286)**
Analytical	2,752	(498)	–	**2,254**
Medical	97	(515)	–	**(418)**
	2,101	(1,433)	(2,118)	**(1,450)**
Net operating assets				
Superconductivity	31,816	–	–	**31,816**
Analytical	35,899	–	–	**35,899**
Medical	20,560	–	–	**20,560**
	88,275	–	–	**88,275**

	Continuing operations £000	Exceptional items £000	Discontinued operations £000	2000 £000
Group turnover				
Superconductivity	62,245	–	9,672	71,917
Analytical	49,470	–	–	49,470
Medical	39,303	–	–	39,303
	151,018	–	9,672	160,690
Group operating loss				
Superconductivity	(3,467)	(2,092)	(2,348)	(7,907)
Analytical	(982)	(2,179)	–	(3,161)
Medical	(545)	(3,076)	–	(3,621)
	(4,994)	(7,347)	(2,348)	(14,689)
Net operating assets				
Superconductivity	36,778	–	(4,548)	32,230
Analytical	30,502	–	–	30,502
Medical	20,055	–	–	20,055
	87,335	–	(4,548)	82,787

Details of the businesses are set out on pages 2 to 3 and 8 to 12. Discontinued operations include the cathodoluminescence and accessories businesses sold in June 2000, together with the operations of the Accelerator Technology Group which until the TopFlight reorganisation in the year to 31 March 2000 traded as a separate business within the Group, and included the beamlines business sold in January 2001 (see Note 18).

2 SEGMENT INFORMATION – ANALYSIS BY BUSINESS continued

The net operating assets comprise:

	2001 £000	2000 £000
Tangible assets	**43,731**	40,815
Net working capital	**44,544**	41,972
Net operating assets	**88,275**	82,787

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

	2001 £000	2000 £000
Net operating assets	**88,275**	82,787
Current taxation	**284**	1,725
Provision relating to exceptional items	**(102)**	(3,384)
Dividends payable	**(2,816)**	(2,827)
Closing net cash	**(8,316)**	2,604
Goodwill	**4,583**	1,607
Investments	**5,021**	5,024
Group net assets employed	**86,929**	87,536

3 SEGMENT INFORMATION – GEOGRAPHICAL ANALYSIS

	UK £000	Continental Europe £000	North America £000	Far East £000	Rest of World £000	2001 £000
Group turnover by destination						
Group and share of joint venture	17,524	71,013	87,901	40,099	5,373	**221,910**
Adjustment for share of trading between Group and joint venture	5,592	–	–	–	–	**5,592**
Less share of joint venture external turnover	(258)	(31,385)	(9,475)	(1,190)	(59)	**(42,367)**
Group turnover to third parties	22,858	39,628	78,426	38,909	5,314	**185,135**
including discontinued operations	*77*	*951*	*469*	*599*	–	***2,096***
Group turnover by origin						
Group and share of joint venture	184,465	–	37,445	–	–	**221,910**
Less share of joint venture turnover	(36,775)	–	–	–	–	**(36,775)**
Group turnover to third parties	147,690	–	37,445	–	–	**185,135**
including discontinued operations	*2,096*	–	–	–	–	***2,096***
Profit/(loss) before tax						
Group operating profit/(loss) by origin	(4,953)	–	4,936	–	–	**(17)**
Share of operating profit of joint venture	4,350	–	–	–	–	**4,350**
Exceptional items	(1,433)	–	–	–	–	**(1,433)**
Operating profit/(loss)	(2,036)	–	4,936	–	–	**2,900**
including discontinued operations	*(2,118)*	–	–	–	–	***(2,118)***
Profit on sale of discontinued business						**599**
Goodwill previously written off to reserves						**–**
Net interest payable						**(792)**
Profit before tax						**2,707**
Net assets employed by location	50,102	4,463	31,662	702	–	**86,929**

3 SEGMENT INFORMATION – GEOGRAPHICAL ANALYSIS continued

	UK £000	Continental Europe £000	North America £000	Far East £000	Rest of World £000	2000 £000
Group turnover by destination						
Group and share of joint venture	16,154	79,475	64,108	35,412	5,919	201,068
Adjustment for share of trading						
between Group and joint venture	4,530	–	–	–	–	4,530
Less share of joint venture external turnover	(238)	(35,038)	(9,046)	(546)	(40)	(44,908)
Group turnover to third parties	20,446	44,437	55,062	34,866	5,879	160,690
including discontinued operations	*1,467*	*4,219*	*2,146*	*1,812*	*28*	*9,672*
Group turnover by origin						
Group and share of joint venture	174,498	–	26,570	–	–	201,068
Less share of joint venture turnover	(40,378)	–	–	–	–	(40,378)
Group turnover to third parties	134,120	–	26,570	–	–	160,690
including discontinued operations	*9,672*	–	–	–	–	*9,672*
(Loss)/profit before tax						
Group operating (loss)/profit by origin	(11,799)	–	4,457	–	–	(7,342)
Share of operating profit of joint venture	5,800	–	–	–	–	5,800
Exceptional items	(6,959)	(377)	(11)	–	–	(7,347)
Operating (loss)/profit	(12,958)	(377)	4,446	–	–	(8,889)
including discontinued operations	*(2,348)*	–	–	–	–	*(2,348)*
Profit on sale of discontinued business						2,855
Goodwill previously written off to reserves						(11,986)
Net interest receivable						197
Loss before tax						(17,823)
Net assets employed by location	57,276	3,283	26,178	799	–	87,536

4 COST OF SALES, NET OPERATING EXPENSES AND EXCEPTIONAL ITEMS

	Continuing operations £000	Exceptional items £000	Discontinued operations £000	**2001 £000**
Cost of sales	130,473	445	2,927	**133,845**
Distribution costs	31,690	403	337	**32,430**
Research and development costs	10,349	-	494	**10,843**
Administrative expenses	8,426	585	456	**9,467**
Net operating expenses	50,465	988	1,287	**52,740**

	Continuing operations £000	Exceptional items £000	Discontinued operations £000	2000 £000
Cost of sales	105,695	765	9,488	115,948
Distribution costs	31,863	512	1,471	33,846
Research and development costs	11,051	138	378	11,567
Administrative expenses	7,403	5,932	683	14,018
Net operating expenses	50,317	6,582	2,532	59,431

4 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 2001 include in relation to the acquisition: cost of sales £1,695,000, distribution costs £22,000, administration expenses £213,000 and amortised goodwill of £198,000.

Exceptional items

Exceptional items relate to continuing activities and include certain costs incurred in connection with the reorganisation of the Group's UK based businesses into a simplified operational structure and the business improvement programme announced on 16 September 1999, as well as the costs of reorganising the Group's Board and senior management.

	2001 £000	2000 £000
Total exceptional items	**1,433**	7,347

Research and development costs

In addition to the £10,843,000 (2000 £11,567,000) charged against research and development, no further costs (2000 £nil) have been charged to cost of sales in respect of funded projects. These figures are stated net of grants receivable of £636,000 (2000 £716,000). The total research and development costs, gross of funding and stock movements, were £11,479,000 (2000 £12,283,000). During the financial year the OMT joint venture also spent in total £7,232,000 (2000 £5,312,000) on research and development.

5 JOINT VENTURE

The Group owns 49% of the issued share capital of Oxford Magnet Technology Limited (OMT) of 3,000,000 £1 ordinary shares. It is engaged in advanced instrumentation and is registered and operates in England. The Group has accounted for its interest in OMT as a joint venture under FRS 9. Details of the business of OMT are set out on page 3.

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 2001 and show the Group's 49% share of the OMT results:

	2001 £000	2000 £000
Turnover	**48,767**	49,304
Operating profit	**4,350**	5,800
Net interest (payable)/receivable	**(358)**	3
Profit on ordinary activities before tax	**3,992**	5,803
Taxation	**(1,243)**	(1,745)
Profit for the financial year attributable to shareholders (see Note 16).	**2,749**	4,058
Fixed assets	**2,541**	2,402
Current assets	**13,397**	9,370
Creditors: amounts falling due within one year	**(12,618)**	(7,329)
Net current assets	**779**	2,041
Total assets less current liabilities	**3,320**	4,443
Provisions for liabilities and charges	**(559)**	(740)
Net assets employed	**2,761**	3,703

5 JOINT VENTURE continued

The Group share of the joint venture turnover as shown in the Group Profit and Loss Account on pages 28 and 29 has been derived after adjusting for trading between the Group and OMT as follows:

	2001 £000	2000 £000
49% of joint venture turnover	**48,767**	49,304
Less 49% of sales of materials and services by OMT to Group	**(6,400)**	(4,396)
Less 49% of sales of materials and services by Group to OMT	**(5,592)**	(4,530)
Group share of joint venture turnover	**36,775**	40,378

6 TOTAL NET INTEREST (PAYABLE)/RECEIVABLE

	2001 £000	2000 £000
Interest receivable on deposits at short call	**176**	301
Interest payable on bank loans and overdrafts	**(610)**	(107)
Group net interest (payable)/receivable	**(434)**	194
Share of joint venture net interest (payable)/receivable	**(358)**	3
Total net interest (payable)/receivable	**(792)**	197

7 PROFIT/(LOSS) ON ORDINARY ACTIVITIES BEFORE TAX

	2001 £000	2000 £000
Profit/(loss) on ordinary activities before tax is stated after (charging)/crediting:		
Depreciation of tangible fixed assets	**(5,342)**	(5,626)
Amortisation of Oxford Instruments plc shares held under the Long Term Incentive Plan	**(168)**	(243)
Amortisation of investments	**–**	(72)
Amortisation of goodwill	**(198)**	96
Net profit on disposal of fixed assets	**324**	351
Rentals payable in respect of operating leases:		
Hire of plant, machinery and vehicles	**(350)**	(315)
Other operating leases	**(2,024)**	(2,070)
Fees paid to auditors and their associates:		
Group audit	**(228)**	(242)
Tax and other advisory services	**(131)**	(82)

The fees for auditing the parent company's accounts were £45,000 (2000 £47,000).

8 EMPLOYEES

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

	2001	2000
Production	**871**	823
Sales and marketing	**398**	441
Research and development	**168**	191
Administration	**114**	164
Total average number of employees	**1,551**	1,619

The number of employees at 31 March was:

By country	2001	2000
UK	**1,030**	973
USA	**394**	335
Germany	**57**	57
Japan	**45**	45
France	**30**	31
Italy	**24**	24
Spain	**22**	23
Rest of World	**39**	29
Total employees	**1,641**	1,517

By business	2001	2000
Superconductivity	**769**	694
Analytical	**556**	490
Medical	**316**	333
Total employees	**1,641**	1,517

In the discontinued operations there were on average 40 (2000 102) employees during the year and 87 at the previous year end.

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

	2001 £000	2000 £000
Wages and salaries	**48,614**	46,713
Social security costs	**4,825**	4,577
Other pension costs	**2,927**	3,233
Total payroll costs	**56,366**	54,523

Under the Group's Share Participation Scheme the Board appropriates each year an amount related to the financial results of the year which is charged to profit and is allocated in the form of Oxford Instruments plc shares to eligible employees on the basis of salary. The shares are held on trust for a minimum of two years and rank for dividend after allocation. The charge to profit during the current financial year was £nil (2000 £nil) as no appropriation was made.

9 PENSIONS

	2001 £000	2000 £000
The total pension cost for the Group was as follows:		
Oxford Instruments Pension Scheme	**2,279**	2,521
Other schemes	**648**	712
Total pension costs	**2,927**	3,233

The Group operates a number of pension schemes throughout the world. The major schemes, covering 82% (2000 84%) of the Group's employees, are of the defined benefit type. The assets of the schemes are held in separate trustee administered funds.

9 PENSIONS continued

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

At the date of the last actuarial valuation the market value of the assets of this scheme was £89.8 million. The assets represented 130% of the value of the benefits that had accrued to members at that date based on the assumptions set out above including assumed future increases in earnings. This surplus is being spread over the remaining working life of the scheme members, estimated to be 12.5 years, giving rise to an overall charge for the year of 10% of pensionable salaries. During the year the Group contributed to the Scheme at a rate of 10.5% (2000 10.5%) of pensionable salary, but from 1 April 2001 the Group contribution increased to 11.5%. Provisions for liabilities include £291,000 (2000 £333,000) in respect of the UK Oxford Instruments Pension Scheme. At the year end the Oxford Instruments Pension Scheme held 167,500 Oxford Instruments plc shares (2000 167,500).

The latest actuarial valuations of the other Group schemes show those funds to have sufficient assets to meet current accrued obligations to existing members and pensioners. No significant surpluses existed.

10 TAX ON PROFIT/(LOSS) ON ORDINARY ACTIVITIES

	2001 £000	2000 £000
United Kingdom:		
Corporation tax credit at 30%	**(1,970)**	(1,762)
Increased by relief for overseas tax	**–**	(17)
Adjustments relating to prior years	**(73)**	(681)
UK corporation tax on share of profit of joint venture	**1,243**	1,745
Total UK taxation	**(800)**	(715)
Overseas tax:		
Current tax	**3,297**	2,706
Adjustments relating to prior years	**186**	(344)
Total overseas tax	**3,483**	2,362
Total current tax	**2,683**	1,647
Deferred tax	**–**	–
Total tax on profit/(loss) on ordinary activities	**2,683**	1,647

11 DIRECTORS' REMUNERATION AND INTERESTS

Information on Directors' remuneration, pensions, shareholdings and options is set out on pages 25 and 26 and forms part of these financial statements.

12 DIVIDENDS

	2001 £000	2000 £000
Interim dividend of 2.4p (2000 2.4p) per share, paid on 27 March 2001	**1,126**	1,114
Proposed final dividend 6.0p per share (2000 6.0p), payable on 4 October 2001	**2,816**	2,827
Total dividend of 8.4p per share (2000 8.4p)	**3,942**	3,941

Subject to the approval of the shareholders at the Annual General Meeting on 31 July 2001, the proposed final dividend will be paid on 4 October 2001 to shareholders registered at the close of business on 7 September 2001. The dividends payable on the shares held in trust under the Executive Incentive Scheme and the Executive Share Option Scheme have been waived (see Note 16).

13 EARNINGS/(LOSSES) PER SHARE

Earnings/(losses) per share has been calculated as follows:

	2001 £000	2000 £000
Profit for the financial year – continuing operations	**2,976**	236
Exceptional items after tax	**(1,433)**	(7,321)
Loss for the financial year – discontinued operations	**(1,519)**	(12,385)
Net profit/(loss) for the financial year	**24**	(19,470)

	Shares 000	Shares 000
Weighted average ordinary shares in issue during year	**47,072**	47,175
Dilutive effect of employee share options	**20**	109
Diluted weighted average ordinary shares	**47,092**	47,284

14 INTANGIBLE ASSETS – GOODWILL

	Goodwill £000	Negative goodwill £000	Group Total £000
Cost			
At 31 March 2000	3,135	(2,057)	1,078
Acquisition (see Note 17)	3,174	–	3,174
At 31 March 2001	**6,309**	**(2,057)**	**4,252**
Amortisation			
At 31 March 2000	(337)	866	529
Amortisation	(631)	433	(198)
At 31 March 2001	**(968)**	**1,299**	**331**
Net book value			
At 31 March 2000	2,798	(1,191)	1,607
At 31 March 2001	**5,341**	**(758)**	**4,583**

Negative goodwill arose on the acquisition of the neurology business from Vickers PLC in December 1997 and is being written back to the profit and loss account over the period to December 2002. Goodwill arose on the acquisition of Austin Scientific Company during the year and is being written off to the profit and loss over a period of eight years.

15 TANGIBLE FIXED ASSETS

	Group Property £000	Group Other fixed assets £000	Group Total £000	Company Property £000	Company Other fixed assets £000	Company Total £000
Cost						
At 31 March 2000	28,194	43,866	72,060	246	1,673	1,919
Exchange adjustments	432	975	1,407	–	–	–
Additions	200	8,212	8,412	–	165	165
Disposals	–	(2,840)	(2,840)	–	(257)	(257)
At 31 March 2001	**28,826**	**50,213**	**79,039**	**246**	**1,581**	**1,827**
Depreciation						
At 31 March 2000	4,174	27,071	31,245	61	813	874
Exchange adjustments	163	712	875	–	–	–
Additions	–	–	–	–	31	31
Amounts provided	550	4,792	5,342	5	354	359
Disposals	–	(2,154)	(2,154)	–	(201)	(201)
At 31 March 2001	**4,887**	**30,421**	**35,308**	**66**	**997**	**1,063**
Net book value						
At 31 March 2000	24,020	16,795	40,815	185	860	1,045
At 31 March 2001	**23,939**	**19,792**	**43,731**	**180**	**584**	**764**

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

	Group 2001 £000	Group 2000 £000	**Company 2001 £000**	Company 2000 £000
Property				
Freehold land	**4,050**	3,950	–	–
Freehold buildings	**12,505**	12,627	**180**	185
Long leasehold land and buildings	**7,011**	7,131	–	–
Short leasehold land and buildings	**373**	312	–	–
	23,939	24,020	**180**	185
Other fixed assets				
Machinery and other equipment	**9,437**	7,665	**5**	7
Fixtures and fittings	**6,491**	4,775	**15**	13
Computer equipment	**2,918**	2,771	**534**	758
Vehicles	**946**	1,584	**30**	82
	19,792	16,795	**584**	860

The Directors believe the open market value of freehold land and buildings exceeds the book value by approximately £6.0 million (2000 £5.0 million), which if realised through disposal would create a tax liability of approximately £0.7 million (2000 £0.5 million). Freehold land is not depreciated, but the remainder of the property gross amount of £24.8 million (2000 £24.2 million) is depreciated.

The net book value of property at 31 March 2001 includes £9.0 million relating to factories in the process of disposal following the rationalisation of the UK manufacturing facilities as well as the facility in Oak Ridge, Tennessee, USA.

16 INVESTMENTS

	Group 2001 £000	Group 2000 £000	Company 2001 £000	Company 2000 £000
Shares in subsidiary undertakings	–	–	**65,552**	65,552
Shares in joint venture	–	–	**1,634**	1,634
Investment in joint venture	**2,761**	3,703	–	–
Executive Option and Incentive Scheme shares held in trust	**958**	788	**958**	788
Other investments	**1,302**	533	**1,302**	393
	5,021	5,024	**69,446**	68,367

In December 2000 170,000 Oxford Instruments plc shares were purchased under the Senior Executive Long Term Incentive Scheme. The cost of these shares is being written off over the three year period to 31 March 2003. In addition 10,000 Oxford Instruments plc shares were purchased in December 2000 under the Executive Share Option Scheme. The cost of these shares will be recovered on exercise.

In total 904,750 shares (2000 724,750) are now held in the Employee Benefit Trust in relation to these two Schemes. Dividends on these shares are being waived.

Movements in investments during the year were as follows:

	Shares in subsidiary undertakings £000	Shares in joint venture £000	Investment in joint venture £000	Executive incentive scheme shares £000	Other Investments £000
Cost or valuation					
At 31 March 2000	65,552	1,634	3,703	788	533
Share of retained profit for the year	–	–	2,749	–	–
Dividends received	–	–	(3,691)	–	–
Oxford Instruments plc shares acquired	–	–	–	338	–
Amounts written off	–	–	–	(168)	–
Additions	–	–	–	–	769
At 31 March 2001	**65,552**	**1,634**	**2,761**	**958**	**1,302**
Representing:					
Investments at cost less amounts written off	65,552	1,634	1,634	958	1,302
Share of post acquisition retained profit	–	–	1,127	–	–
	65,552	**1,634**	**2,761**	**958**	**1,302**

Other investments include £nil (2000 £140,000) of investments held by subsidiary companies.

17 ACQUISITION

The Group acquired Austin Scientific Company based in Austin, USA, on 1 October 2000 for a net cash consideration of $5.8 million (£3.9 million).

The fair value attributed to the business at the date of the acquisition was:

	Book and fair value to the Group £000
Tangible fixed assets	101
Stocks	363
Debtors	640
Net cash	3,944
Creditors	(367)
Net assets	4,681
Goodwill	3,174
Net outflow of cash in respect of the purchase	7,855
Less net cash acquired	(3,944)
Net cash outflow on acquisition	**3,911**

18 DISPOSALS

On 19 June 2000 the Group sold its cathodoluminescence and accessories business, based in Oxford, UK, for a cash consideration of £1,337,000. The results of this business for the year to 31 March 2001 are shown under discontinued operations in the Group profit and loss account on pages 28 and 29.

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

	£000
Profit on sale of net tangible assets	990
Less goodwill previously written off against reserves	–
Net profit on disposal	990

On 25 January 2001 the Group sold its beamlines business based in Oxford, UK, for a cash consideration of £646,000. The results of this business for the year to 31 March 2001 are shown under discontinued operations in the Group profit and loss account on pages 28 and 29.

There was an estimated net loss on disposal of the business as follows:

	£000
Loss on sale of net tangible assets	(391)
Less goodwill previously written off against reserves	–
Net loss on disposal	(391)

In the year to 31 March 2000 the Group sold its nuclear measurements business based in Oak Ridge, Tennessee, USA and its scanning probe microscopy business based in Cambridge, UK for a total net loss of £9,131,000 representing a profit on sale of net tangible assets of £2,855,000 less goodwill previously written off against reserves of £11,986,000.

19 PRINCIPAL SUBSIDIARY UNDERTAKINGS

	Equity owned by the Company %	Country of principal operations	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	Manufacture
Oxford Instruments Medical Ltd	*100	England	Manufacture
Oxford Instruments Analytical Ltd	*100	England	Manufacture
Oxford Instruments Plasma Technology Ltd	*100	England	Manufacture
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
Microspec Corporation	*100	USA	Research
Oxford Superconducting Technology	*100	USA	Manufacture
Austin Scientific Company	*100	USA	Manufacture
Oxford Instruments Medical Inc	*100	USA	Distribution
Oxford Instruments America Inc	*100	USA	Distribution
Oxford Instruments (Tennessee) Inc	*100	USA	Manufacture
Oxford Instruments X-Ray Technologies Inc	*100	USA	Manufacture
Oxford Instruments GmbH	*100	Germany	Distribution
Oxford Instruments SARL	*100	France	Distribution
Oxford Instruments BV	*100	The Netherlands	Distribution
Oxford Instruments Nederland BV	*100	The Netherlands	Distribution
Oxford Instruments SA	*100	Spain	Distribution
Oxford Instruments SpA	*100	Italy	Distribution
Oxford Instruments NV	*100	Belgium	Distribution
Oxford Instruments KK	*100	Japan	Distribution
Oxford Magnets KK	*100	Japan	Distribution
Oxford Instruments Pte Ltd	*100	Singapore	Distribution

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

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

20 STOCKS

	Group 2001 £000	Group 2000 £000
Raw materials and consumables	**18,211**	13,109
Work in progress	**17,465**	15,421
Finished goods and goods for resale	**8,020**	7,584
Total stocks	**43,696**	36,114

21 DEBTORS

	Group 2001 £000	Group 2000 £000	Company 2001 £000	Company 2000 £000
Amounts falling due within one year				
Trade debtors	**53,921**	46,074	–	–
Amounts recoverable on contracts	**1,850**	4,364	–	–
Amounts owed by subsidiary undertakings	–	–	**50,849**	32,257
Amounts owed by joint venture	**1,228**	972	–	–
ACT recoverable	**240**	1,040	**240**	1,040
Other debtors	**6,534**	8,127	**2,031**	1,608
Prepayments and accrued income	**2,552**	2,631	**162**	156
Total debtors	**66,325**	63,208	**53,282**	35,061

22 CASH AT BANK AND IN HAND

	Group 2001 £000	Group 2000 £000	Company 2001 £000	Company 2000 £000
Cash on short term bank deposits	–	1,500	–	1,500
Cash at bank and in hand	**1,643**	4,209	**22,729**	31,344
Total cash	**1,643**	5,709	**22,729**	32,844

23 CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	Group 2001 £000	Group 2000 £000	Company 2001 £000	Company 2000 £000
Bank loans and overdrafts	**9,959**	3,105	**27,468**	17,678
Payments received on account	**10,199**	10,009	–	–
Trade creditors	**17,167**	13,731	**260**	443
Amounts owed to subsidiary undertakings	–	–	**2,307**	2,502
Amounts owed to joint venture	**3,118**	1,639	–	–
Other creditors	**4,055**	3,797	–	48
Corporation tax, UK and overseas	**1,762**	3,180	**207**	207
Payroll tax, social security and sales related taxes	**2,097**	1,557	**24**	25
Accruals and deferred income	**20,719**	16,544	**644**	349
Proposed dividends	**2,816**	2,827	**2,816**	2,827
Other creditors	**61,933**	53,284	**6,258**	6,401

24 PROVISIONS FOR LIABILITIES AND CHARGES

	Warranty provisions £000	Closure and restructuring provisions £000	Pension obligations £000	Environmental provisions £000	Group Total £000	Company Closure and restructuring provisions £000
At 31 March 2000	4,041	3,434	1,031	46	8,552	74
Provided in the year	2,997	1,433	207	–	4,637	369
Utilised in the year	(2,144)	(4,742)	–	–	(6,886)	(443)
Released unused	(405)	(3)	–	–	(408)	–
Exchange movements	152	30	96	5	283	–
At 31 March 2001	**4,641**	**152**	**1,334**	**51**	**6,178**	–

25 DEFERRED TAX

	Group Provided 2001 £000	Group Provided 2000 £000	**Group Unprovided 2001 £000**	Group Unprovided 2000 £000
The amounts for deferred tax liabilities/(assets), representing the full potential liability, are set out below:				
Excess/(deficit) of capital allowances over corresponding depreciation	–	1,329	**(1,119)**	–
Other timing differences	–	(737)	**(708)**	–
Carried forward losses	–	(592)	**(4,178)**	(4,222)
	–	–	**(6,005)**	(4,222)

At 31 March 2001 the Company had £nil (2000 £32,000) of accelerated capital allowances that were not provided.

26 CALLED UP SHARE CAPITAL

	2001 Shares 000	**2001 £000**	2000 Shares 000	2000 £000
Authorised				
Ordinary shares of 5p each	**58,000**	**2,900**	58,000	2,900
Allotted, called up and fully paid				
Ordinary shares of 5p each	**47,834**	**2,392**	47,834	2,392

There were no movements in shares during the year.

26 CALLED UP SHARE CAPITAL continued

	2001 Number of shares	Option price range	Period when exercisable	2000 Number of shares
Options subsisting at the year end on unissued ordinary shares				
Executive Share Option Scheme	**534,625**	£1.83 – £4.87	01/04/01 – 20/07/10	674,500
Savings Related Share Option Scheme	**1,289,042**	£1.39 – £3.87	01/04/01 – 31/07/06	1,531,203
Total options subsisting on unissued ordinary shares	**1,823,667**			2,205,703
Percentage of issued share capital	**3.8%**			4.6%

Options subsisting at the year end on existing ordinary shares held in trust or to be purchased				
Senior Executive Long Term Incentive Scheme	**670,265**	nil	01/04/01 – 21/12/07	489,265
Executive Share Option Scheme	**227,250**	£1.86 – £1.96	01/04/01 – 24/12/10	250,750
Individual Options	**150,000**	£2.95	06/03/03 – 06/03/08	150,000
	1,047,515			890,015

27 RESERVES

	Share premium account £000	Capital redemption reserve £000	Other reserves £000	Group Profit and loss account £000
At 31 March 2000	18,656	125	15,805	50,558
Retained loss for the financial year	–	–	–	(3,918)
Other exchange adjustments	–	–	–	3,311
At 31 March 2001	**18,656**	**125**	**15,805**	**49,951**

Purchased goodwill of £39,726,000 (2000 £39,726,000), previously eliminated against reserves, has been offset against the profit and loss account.

	Share premium account £000	Capital redemption reserve £000	Other reserves £000	Company Profit and loss account £000
At 31 March 2000	18,656	125	7,594	84,397
Retained loss for the financial year	–	–	–	(669)
At 31 March 2001	**18,656**	**125**	**7,594**	**83,728**

Distributable reserves at 31 March 2001 were:

	2001 £000	Company 2000 £000
Available for distribution	**83,728**	84,397
Not available for distribution	–	–
Total reserves	**83,728**	84,397

28 RECONCILIATIONS OF MOVEMENTS IN EQUITY SHAREHOLDERS' FUNDS

	Group 2001 £000	Group 2000 £000	Company 2001 £000	Company 2000 £000
Profit/(loss) for the financial year	**24**	(19,470)	**3,273**	3,806
Dividends paid and proposed	**(3,942)**	(3,941)	**(3,942)**	(3,941)
Retained loss for the financial year	**(3,918)**	(23,411)	**(669)**	(135)
Exchange differences on foreign currency net investments	**3,311**	28	–	–
New share capital subscribed	–	103	–	103
Goodwill written back to profit and loss account	–	11,986	–	–
Goodwill written off during year	–	(81)	–	–
Net reduction in equity shareholders' funds	**(607)**	(11,375)	**(669)**	(32)
Opening equity shareholders' funds	**87,536**	98,911	**113,164**	113,196
Closing equity shareholders' funds	**86,929**	87,536	**112,495**	113,164

29 NET CASH FLOW FROM OPERATING ACTIVITIES

	2001 £000	2000 £000
Group operating loss	**(1,450)**	(14,689)
Depreciation charges	**5,510**	5,941
Amortisation of goodwill	**198**	(96)
Net profit on disposal of fixed assets	**(324)**	(351)
Change in stocks	**(9,556)**	(3,684)
Change in debtors	**(3,731)**	1,553
Changes in creditors	**10,048**	4,812
Changes in provisions	**(2,620)**	4,951
Net cash flow from operating activities	**(1,925)**	(1,563)

Included in net cash flow from operating activities are outflows of £4,682,000 (2000 £3,963,000) relating to exceptional items.

30 CASH FLOWS NETTED IN THE CASH FLOW STATEMENT

	2001 £000	2000 £000
Interest received	**176**	593
Interest paid	**(608)**	(102)
Net cash (outflow)/inflow from returns on investments and servicing of finance	**(432)**	491
Purchase of fixed assets	**(6,413)**	(4,806)
Sale of fixed assets	**527**	1,321
Investments acquired	**(343)**	(577)
Net cash outflow for capital expenditure and financial investment	**(6,229)**	(4,062)
Decrease in term deposits	**1,500**	5,041
Increase in term loans	**8,000**	–
Net cash inflow from management of liquid resources	**9,500**	5,041
Issue of ordinary shares including share premium	**–**	103
Net cash inflow from financing	**–**	103

Liquid resources are defined as deposits and loans repayable within one year.

31 MOVEMENT IN NET (DEBT)/FUNDS

	At 31 March 2001 £000	Exchange rate effect £000	Cash movement in year £000	At 31 March 2000 £000
Cash at bank and in hand	**1,643**	216	(2,782)	4,209
Bank overdrafts	**(1,119)**	(188)	1,256	(2,187)
Net cash	**524**	28	(1,526)	2,022
Cash on deposit	**–**	–	(1,500)	1,500
Debt due within one year	**(8,840)**	78	(8,000)	(918)
Net (debt)/funds	**(8,316)**	106	(11,026)	2,604

32 DERIVATIVES AND FINANCIAL INSTRUMENTS

Forward foreign currency contracts

The Group enters into forward foreign currency contracts to eliminate 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 2001 was as follows:

	Gains £000	(Losses) £000	Net Total £000
Unrecognised gains and losses at 31 March 2000	203	(761)	(558)
Gains and losses arising in previous year recognised in current year	(203)	761	558
Gains and losses arising in current year and not recognised in current year	1,636	(996)	640
Unrecognised gains and losses at 31 March 2001	**1,636**	**(996)**	**640**

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 2001 were:

	Gross contract value million	**Book value £000**	**Fair value £000**
US Dollars	**45**	–	**1,599**
Japanese Yen	**854**	–	**(754)**
Euros	**16**	–	**(205)**

The net foreign currency monetary assets after taking account of contract hedges at 31 March 2001 were:

	Net monetary assets/(liabilities) £000
US Dollars	–
Japanese Yen	–
Euros	–

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

32 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 31 March 2001:

	Currency	Interest rate	Book value £000	Fair value £000
Cash in hand and short term deposits	Sterling	floating	**43**	**43**
Cash in hand	US Dollar	floating	**706**	**706**
Cash in hand and short term deposits	Euro	floating	**594**	**594**
Cash in hand	Japanese Yen	none	**300**	**300**
Total financial assets			**1,643**	**1,643**
Bank loans	Sterling	floating	**8,000**	**8,000**
Bank loans	Japanese Yen	floating	**840**	**840**
Bank overdraft	US Dollar	floating	**385**	**385**
Bank overdraft	Sterling	floating	**681**	**681**
Bank overdraft	Euro	floating	**53**	**53**
Total financial liabilities			**9,959**	**9,959**

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

33 CONTINGENT LIABILITIES

	Group 2001 £000	Group 2000 £000	**Company 2001 £000**	Company 2000 £000
Guarantees in respect of subsidiary undertakings' indebtedness	**–**	–	**1,604**	2,187
Guarantees in respect of joint venture's indebtedness	**–**	–	**6,750**	903
Other bank guarantees and contingent liabilities	**1,799**	6,890	**–**	–
	1,799	6,890	**8,354**	3,090

Where the Company has issued guarantees to secure bank facilities for its subsidiary undertakings the value of these guarantees are shown only to the extent that these facilities were being used by its subsidiary undertakings at the year end. There are no unfunded pension or post retirement medical costs. No security has been given in respect of any contingent liability.

34 OTHER COMMITMENTS

	Group 2001 £000	Group 2000 £000	Company 2001 £000	Company 2000 £000
Capital commitments				
Contracted for but not provided	**487**	929	**–**	–

Lease commitments

Annual commitments under non cancellable operating leases expiring within:

		Group 2001 £000	Group 2000 £000	Company 2001 £000	Company 2000 £000
1 year	Land and buildings	**48**	430	**–**	–
	Other	**115**	23	**–**	–
	Total	**163**	453	**–**	–
2 to 5 years	Land and buildings	**1,004**	651	**–**	–
	Other	**344**	64	**34**	–
	Total	**1,348**	715	**34**	–
Thereafter	Land and buildings	**656**	652	**–**	–
	Other	**–**	–	**–**	–
	Total	**656**	652	**–**	–

During the year the Company entered into a contract hire arrangement to cover the replacement of company vehicles as they become due for renewal.

35 EXCHANGE RATES

The principal exchange rates to sterling used were:

Average translation rate	2001	2000
US Dollar	**1.48**	1.61
Euro	**1.64**	1.56
Yen	**164**	178

Year end rate	2001	2000
US Dollar	**1.42**	1.60
Euro	**1.61**	1.67
Yen	**178**	164

Average contract rates	2001	2000
US Dollar	**1.56**	1.62
Euro	**1.61**	1.54
Yen	**179**	203

Financial calendar

31 March 2001	Financial year end
6 June 2001	Announcement of preliminary results
31 July 2001	Annual General Meeting
5 September 2001	Ordinary shares quoted ex-dividend
7 September 2001	Record date for final dividend
4 October 2001	Payment of final dividend
Mid November 2001	Announcement of half year results
End March 2002	Payment of interim dividend
31 March 2002	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 IRG Plc
Bourne House, 34 Beckenham Road
Beckenham, Kent BR3 4TU
Tel 020 8650 4866
Fax 020 8658 3430

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 the notification of payments 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 new 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 to 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
12 Tokenhouse Yard, London EC2R 7AN
Tel 020 7588 2828
Fax 020 7606 9205

Analysis of shareholders as at 31 March 2001

Size of shareholding	Number of holders	% of total	Total holding	% of total
Up to 5,000 shares	3,270	89.7	2,488,923	5.2
5,001 to 50,000 shares	282	7.8	4,536,413	9.5
50,001 to 200,000 shares	48	1.3	5,111,938	10.7
Over 200,000 shares	44	1.2	35,696,932	74.6
Total	3,644	100.0	47,834,206	100.0

	1997 £000	1998 £000	1999 £000	2000 £000	**2001 £000**
Profit and loss account					
Group and share of joint venture turnover	174,995	199,336	217,031	201,068	**221,910**
Less share of joint venture turnover	(27,939)	(27,126)	(49,220)	(40,378)	**(36,775)**
Group turnover	147,056	172,210	167,811	160,690	**185,135**
Group operating profit/(loss)	16,543	11,956	3,979	(14,689)	**(1,450)**
Share of operating profit of joint venture	4,555	2,659	7,165	5,800	**4,350**
Total operating profit/(loss)	21,098	14,615	11,144	(8,889)	**2,900**
Profit on sale of business before goodwill	–	–	–	2,855	**599**
Goodwill previously written off	–	–	–	(11,986)	**–**
Net interest receivable/(payable)	1,877	1,223	375	197	**(792)**
Profit/(loss) on ordinary activities before tax	22,975	15,838	11,519	(17,823)	**2,707**
Taxation	(7,766)	(4,801)	(3,670)	(1,647)	**(2,683)**
Profit/(loss) attributable to shareholders	15,209	11,037	7,849	(19,470)	**24**
Balance sheet					
Intangible assets – goodwill	–	–	(1,624)	1,607	**4,583**
Tangible fixed assets	31,160	42,279	42,749	40,815	**43,731**
Investments	3,804	2,660	5,062	5,024	**5,021**
Stocks	35,323	33,863	34,481	36,114	**43,696**
Debtors	47,607	62,018	63,867	63,208	**66,325**
Other creditors	(45,277)	(47,797)	(47,214)	(53,284)	**(61,933)**
Net current assets, excluding net cash/(debt)	37,653	48,084	51,134	46,038	**48,088**
Cash at bank and on short term deposits	26,825	14,816	9,130	5,709	**1,643**
Bank loans and overdrafts	(2,642)	(3,500)	(3,099)	(3,105)	**(9,959)**
Net cash/(debt)	24,183	11,316	6,031	2,604	**(8,316)**
Provisions for liabilities and charges	(4,385)	(4,932)	(4,441)	(8,552)	**(6,178)**
Net assets employed	92,415	99,407	98,911	87,536	**86,929**
Equity shareholders' funds	92,415	99,407	98,911	87,536	**86,929**
Cash flow					
Net cash inflow/(outflow) from operating activities	17,012	14,580	12,908	(1,563)	**(1,925)**
Interest and dividends, paid and received	9,681	582	834	(246)	**(694)**
Taxation	(5,678)	(3,411)	(7,485)	(119)	**(250)**
Investing activities	(14,439)	(25,433)	(6,396)	(1,620)	**(8,157)**
Net cash inflow/(outflow) before management of liquid resources and financing	6,576	(13,682)	(139)	(3,548)	**(11,026)**

	pence	pence	pence	pence	**pence**
Per ordinary share					
Earnings/(losses)	30.8	22.2	16.2	(41.3)	**0.1**
Dividends	7.5	8.1	8.4	8.4	**8.4**
Net assets attributable to shareholders	185.6	197.9	207.0	183.0	**181.7**

	1997	1998	1999	2000	**2001**
Employees					
Average number of employees	1,535	1,674	1,809	1,619	**1,551**

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