

# Oxford Instruments plc

Half Year Report September 2012



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*The Business of Science®*



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

## Summary of Half Year Results

	2012 £m	2011 £m
Orders	169.8	174.8
Revenue	170.8	159.1
Adjusted operating profit	23.8	18.9
Adjusted profit before tax	23.1	18.7
Net cash	37.1	11.9
Shareholders' equity	126.5	119.9

  

	2012 Pence per share	2011 Pence per share
Adjusted basic earnings	33.9	28.2
Basic earnings (as re-presented*)	20.9	16.7
Proposed dividend	3.05	2.77
Net assets (as restated*)	224.4	217.1

  

	2012 Number	2011 Number
Employees at half year end	1,906	1,896

\*for details of restatement and re-presentation of comparative information see note 1.

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## INTRODUCTION

The Group continued to make good progress in the first half driven by new product introductions and long term structural global growth in demand for Nanotech tools. Revenue grew by 7.4% to £170.8 million (2011: £159.1 million), with constant currency organic growth of 5.8%. Adjusted profit before tax grew by 23.5% to £23.1 million (2011: £18.7 million). Our adjusted operating margin continued to increase, rising to 13.9% from 11.9% in the prior year.

Overall, demand for our products remained strong, despite some softness in the industrial sector as reported in our AGM statement in September 2012. We maintained pricing in the period, supported by the strength of our brand and the quality of our technology. Our organic growth continues to be underpinned by our focused R&D programme. In the half year, we increased our R&D cash spend by 7% to £12.1 million, reflecting the opportunities we see to increase market share through the introduction of innovative new products.

Developed markets showed robustness as customers used our equipment to work at the frontiers of science and improve the efficiency of high technology production facilities. Growth in North America and Europe was 3% and 1% respectively. Sales growth in Asia was strong at 23% supported by a number of initiatives including a branch office in Korea and the opening of our Indian subsidiary led by a new senior Country Manager.

October 2012 marked the half way point of our 14 Cubed growth plan to deliver an average compound annual growth rate in sales of 14% and a net return on sales of 14% by 2014. Progress to date is in line with meeting these objectives.

The Directors declare an interim dividend of 3.05 pence, 10% higher than the

previous year, payable on 8 April 2013 to shareholders who are on the register on 8 March 2013.

## NANOTECHNOLOGY TOOLS SECTOR

	2012 £m	2011 £m
Revenue	80.9	70.4
Operating profit	10.4	7.3

In our Nanotechnology Tools sector, which represents 47% of Group revenue, profits grew by 42% and operating profit margins increased to 12.9% (2011: 10.4%). The sector comprises four businesses: NanoAnalysis, Plasma Technology, NanoScience and Omicron NanoTechnology. It produces high performance instruments and systems for customers working in scientific research and with advanced industrial processes. We have seen no evidence of a reduction in research funding from governments worldwide.

Sales of our new material characterisation system comprising our latest generation nanoanalysis detector hardware and multi-tasking Aztec® software have been strong. A series of software upgrades has firmly established this product as the world's leading material characterisation system and sales have exceeded expectations. Three new product introductions in the first half have further enhanced the position of NanoAnalysis as technology leaders with the new X-MAX<sup>n</sup> series of large area detectors setting a new benchmark in the measurement and quantification of materials at the nanoscale. The acquisition of Omniprobe in June 2011 has broadened our NanoAnalysis product range by offering innovative nano-manipulation tools for sample preparation on electron and ion beam microscopes. The launch of a new nano-manipulation tool, Omniprobe400, has supported Omniprobe's growing contribution to the Group.

Our Plasma Technology business produces equipment for nanofabrication and has performed well. We have seen good growth in markets such as next generation photovoltaics, power semiconductors and MEMS (Micro Electrical Mechanical Systems), sales of which have increased following the launch of our PlasmaPro100 system. As previously reported, over-capacity in the HBLED market has led to a softening in demand for our HBLED fabrication tools over the last 18 months. However we maintain a strong technological position in this market and we are well placed to benefit when demand begins to strengthen again.

Omicron NanoTechnology, which we acquired in June 2011, offers customers working at the cutting-edge of physics research a broad range of sophisticated, multi-technique systems. These include Scanning Probe Microscopy (SPM), Electron Spectroscopy and Ultra High Vacuum solutions. Some weakness in orders in the second half of last year has now reversed and order intake in the period has been strong, including the largest order Omicron has ever taken. However, the long lead times associated with its complex products mean that it will take another year to bring this business up to expected levels of performance. In line with our integration plan we have appointed a new Managing Director to drive this growth. He replaces the founder who, as planned, has retired.

Our NanoScience business is the world's leading supplier of cryogenic systems for nano-characterisation and measurement at low temperatures and high magnetic fields. Our Triton® dilution refrigerator continues to be a market leading product for this business. Six systems were recently installed in the newly opened Centre for Quantum Devices at the Niels Bohr Institute in Copenhagen. The growth of the consultancy business has continued with a range of contracts including one with fusion technology specialists Tokamak Solutions.



**INDUSTRIAL PRODUCTS SECTOR**

	2012 £m	2011 £m
Revenue	61.5	64.7
Operating profit	7.6	6.6

In our Industrial Products sector, which represents 36% of Group revenue, profits grew by 15%. The businesses which make up this sector are unchanged but have been regrouped into Industrial Analysis and Industrial Components. This sector supplies analytical systems for quality control, environmental and compliance testing and components for industry and research. The Industrial Analysis business comprises X-ray Fluorescence, Optical Emission Spectroscopy and Magnetic Resonance. Industrial Components comprises Superconducting Wire, Austin Scientific and X-Ray Technology.

Emerging markets, particularly India, continue to offer an important growth opportunity for Industrial Products, although in general visibility is lower than last year. Prior year comparators include revenues from a product line we disposed of last year and a large one-off order in Austin Scientific. Excluding these items, revenues increased. Operating profit margins further improved to 12.4% (2011: 10.2%).

In Industrial Analysis, new portable and hand-held analysers launched this half have generated considerable interest from both new and existing customers, offering an innovative user interface and improved ergonomics in response to customer feedback. Our bench top products have benefited from strong demand. We have continued to build a strong position in the rock core analysis market where our magnetic resonance analyser is a market leader. Magnetic resonance is gaining recognition as a crucial technique in helping to understand recently discovered natural resources such as oil in shale.

In Industrial Components, the increasing demand for next generation, higher magnetic field MRI scanners continues to drive growth in our Superconducting Wire business where we have invested in new facilities which will improve efficiency in the core MRI business. Deliveries to the international ITER energy programme remain on track with completion scheduled for the end of the financial year. In our X-Ray Technology business, important new product innovations include the use of a novel X-ray source in a radiography system to advance the treatment of breast cancer and on the NASA Mars Rover. At Austin Scientific, sales to a large semiconductor manufacturer have reduced, as anticipated, following a large contract win last year. Austin Scientific's move to new premises has been completed successfully.

**SERVICE SECTOR**

	2012 £m	2011 £m
Revenue	29.3	24.9
Operating profit	5.8	5.0

Our Service business represents 17% of Group revenue and profits grew by 16%. It comprises activities in the United States and Japan servicing MRI machines, together with the aftermarket revenues associated with our Nanotechnology Tools and Industrial Products sectors. Operating profit margins remained strong at 19.8% (2011: 20.1%).

The aftermarket revenues associated with our two manufacturing sectors are split into three main revenue streams: service contracts (where customers purchase unlimited support for a fixed period); billable service (where customers are billed for time and materials); and the sale of spare parts and consumables. To support these activities, we are also investing in e-commerce, new training packages, hardware and software upgrades and increased personnel.

In November 2011 we acquired Platinum Medical Imaging, an established US company providing high quality parts and services for MRI (Magnetic Resonance Imaging) and CT (Computed Tomography) medical imaging instruments. There is a growing opportunity in the US market following healthcare reforms which have encouraged the transfer of medical imaging facilities to more cost effective third party service providers. The combination of Platinum with Oxford Instruments' MRI Service business in North America significantly strengthens the Group's Service Sector by providing a broader range of services internationally. For example, we have recently received regulatory approval to provide refurbished CT and MR equipment to companies in South Korea.

**FINANCIAL REVIEW**

Orders in the period were £169.8 million (2011: £174.8 million) and the order book for future deliveries was £142.8 million at the end of the period.

Revenues in the half year grew by 7.4% (£11.7 million) to £170.8 million. The increase in revenues between the two periods due to acquisitions and disposals was £3.7 million. Adverse foreign currency exchange rate movements reduced sales by £1.2 million giving organic volume growth of 5.8%.

The implementation of the Business Improvement Plan, one of the three elements of our 14 Cubed medium term plan has helped grow gross margins across the Group from 42.7% to 44.6%. Constant currency operating expenses, excluding acquisitions, were held at the same level as the prior year.

Adjusted operating profit increased by £4.9 million to £23.8 million, giving an adjusted operating profit margin of 13.9% (2011: 11.9%). Net bank interest reduced by £0.2 million to a charge of £0.3 million, and net interest on the pension fund changed from



a credit of £0.3 million to a charge of £0.4 million due to the increased deficit at the end of March 2012 and the reduced rate of return from gilt related assets. As a result adjusted profit before tax rose £4.4 million to £23.1 million.

The ability to utilise brought forward tax losses in the UK has kept the adjusted tax rate low at 18% (2011: 20%) which leads to adjusted earnings per share (EPS) of 33.9 pence, an increase of 5.7 pence. Reported EPS rose by 4.2 pence to 20.9 pence. The difference is due to the items detailed in note 2, primarily acquisition costs, amortisation of acquired intangible assets and the utilisation of the large deferred tax asset that was excluded from adjusted earnings in the prior year.

Earnings before interest, tax, depreciation and amortisation (EBITDA) increased by 19.5% to £28.2 million. As expected working capital expanded in the period but remains controlled at 7% of the previous twelve months sales. Capital expenditure increased to £4.2 million from £2.1 million primarily due to increased investment in our superconducting wire facility.

At the period end net cash was £37.1 million (31 March 2012: £35.1 million, 2011: £11.9 million). Cash inflow in the period was £2.0 million (2011: £1.2 million outflow). The Group has a committed £50 million revolving credit facility with a club of banks, extendable to £70 million by mutual consent, which expires in December 2014.

As calculated under IAS19, the defined benefit pension deficit has increased by £5.7 million to £40.9 million since 31 March 2012. Since 31 March 2012 assets have risen by 2.3% to £184.4 million while liabilities have increased by 4.6% to £225.3 million due mainly to the reduction in corporate bond yields used to discount liabilities.

## GOING CONCERN

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

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

This Half Year Report has been prepared on a going concern basis, based on the Directors' opinion, after making reasonable enquiries, that the Group has adequate resources to continue in operational existence for the foreseeable future.

## PRINCIPAL RISKS

The principle risks in the business are considered the Principal Risks and Uncertainties section of this Half Year Report.

## PEOPLE

A high technology business relies on the skills and expertise of its people. We therefore recognise the importance of ensuring a sustainable business going forward through an inclusive strategy of managing, developing and recruiting people who support our company values and contribute to our growth. Our wholehearted thanks go to all our people for their commitment, energy and hard work.

## OUTLOOK

We have delivered a strong result in the first half in line with our 14 Cubed objectives. We have a broad spread of geographies and technologies, exposure to markets with long term structural growth, a strong pipeline of new products and a focus on improving efficiency. These factors should help us to remain resilient against a backdrop of sustained global economic uncertainty. We are continuing our pursuit of acquisitions that have the potential to enhance shareholder value and add to our range of technical capabilities.

The Board remains confident in the continued growth prospects of Oxford Instruments and the Group's ability to deliver shareholder value.

**Jonathan Flint**  
Chief Executive

13 November 2012



# Condensed Consolidated Statement of Income – unaudited

	Notes	Half Year to 30 September 2012			Half Year to 30 September 2011 As restated and re-presented**		
		Adjusted* £m	Adjusting items* £m	Total £m	Adjusted* £m	Adjusting items* £m	Total £m
<b>Revenue</b>	3	170.8	–	170.8	159.1	–	159.1
Cost of sales		(94.6)	(0.2)	(94.8)	(91.1)	(1.0)	(92.1)
<b>Gross profit</b>		76.2	(0.2)	76.0	68.0	(1.0)	67.0
Research and development	4	(12.1)	–	(12.1)	(12.6)	–	(12.6)
Selling and marketing		(25.1)	–	(25.1)	(22.3)	–	(22.3)
Administration and shared services		(16.3)	(6.0)	(22.3)	(14.4)	(5.0)	(19.4)
Other operating income		–	–	–	–	–	–
Foreign exchange gain/(loss)		1.1	–	1.1	0.2	–	0.2
<b>Operating profit</b>		23.8	(6.2)	17.6	18.9	(6.0)	12.9
Expected return on pension scheme assets		4.8	–	4.8	5.4	–	5.4
Other financial income		0.2	–	0.2	–	0.4	0.4
<b>Financial income</b>		5.0	–	5.0	5.4	0.4	5.8
Interest charge on pension scheme liabilities		(5.2)	–	(5.2)	(5.1)	–	(5.1)
Other financial expenditure		(0.5)	–	(0.5)	(0.5)	–	(0.5)
<b>Financial expenditure</b>		(5.7)	–	(5.7)	(5.6)	–	(5.6)
<b>Profit before income tax</b>	3	23.1	(6.2)	16.9	18.7	(5.6)	13.1
Income tax expense	6	(4.1)	(1.1)	(5.2)	(3.8)	(0.4)	(4.2)
<b>Profit for the period attributable to equity shareholders of the parent</b>		19.0	(7.3)	11.7	14.9	(6.0)	8.9
		<b>pence</b>		<b>pence</b>	<b>pence</b>		<b>pence</b>
<b>Earnings per share</b>							
Basic earnings per share	7	33.9		20.9	28.2		16.7
Diluted earnings per share	7	33.4		20.6	27.4		16.2
<b>Dividends per share</b>							
Dividends paid	8			2.77			2.52
Dividends proposed	8			3.05			2.77

\* Adjusting numbers are stated to give a better understanding of the underlying business performance. Details of adjusting items can be found in Note 2 of this Half Year Report.

\*\* See Note 1 of this Half Year Report for details of restatement and re-presentation of comparative information.

# Condensed Consolidated Statement of Income – unaudited *continued*

Year to 31 March 2012				
	Notes	Adjusted* £m	Adjusting items* £m	Total £m
<b>Revenue</b>	3	337.3	–	337.3
Cost of sales		(188.3)	(1.7)	(190.0)
<b>Gross profit</b>		149.0	(1.7)	147.3
Research and development	4	(25.8)	–	(25.8)
Selling and marketing		(48.7)	–	(48.7)
Administration and shared services		(32.1)	(12.7)	(44.8)
Other operating income		–	7.0	7.0
Foreign exchange gain/(loss)		(0.3)	–	(0.3)
<b>Operating profit</b>		42.1	(7.4)	34.7
Expected return on pension scheme assets		10.9	–	10.9
Other financial income		0.2	1.5	1.7
<b>Financial income</b>		11.1	1.5	12.6
Interest charge on pension scheme liabilities		(10.2)	–	(10.2)
Other financial expenditure		(1.0)	–	(1.0)
<b>Financial expenditure</b>		(11.2)	–	(11.2)
<b>Profit before income tax</b>	3	42.0	(5.9)	36.1
Income tax expense	6	(8.8)	(2.5)	(11.3)
<b>Profit for the period attributable to equity shareholders of the parent</b>		33.2	(8.4)	24.8
		<b>pence</b>		<b>pence</b>
<b>Earnings per share</b>				
Basic earnings per share	7	61.6		46.0
Diluted earnings per share	7	60.3		45.0
<b>Dividends per share</b>				
Dividends paid	8			9.0
Dividends proposed	8			10.0

\* Adjusting numbers are stated to give a better understanding of the underlying business performance. Details of adjusting items can be found in Note 2 of this Half Year Report.

## Condensed Consolidated Statement of Comprehensive Income – unaudited

	Half year to 30 September 2012 £m	Half year to 30 September 2011 as re-presented* £m	Year to 31 March 2012 £m
<b>Profit for the period</b>	11.7	8.9	24.8
<b>Other comprehensive (expense)/income</b>			
Foreign exchange translation differences	(2.6)	0.5	(2.6)
Actuarial loss in respect of post retirement benefits	(7.7)	(20.4)	(28.6)
Net loss on effective portion of changes in fair value of cash flow hedges, net of amounts recycled	–	(1.2)	(0.4)
Tax on items recognised directly in other comprehensive income	1.6	5.5	7.2
<b>Total other comprehensive (expense)/income</b>	(8.7)	(15.6)	(24.4)
<b>Total comprehensive income/(expense) for the period attributable to equity shareholders of the parent</b>	3.0	(6.7)	0.4

\* See note 1 for details of re-presentation of comparative information.



# Condensed Consolidated Statement of Changes in Equity – unaudited

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	Share capital £m	Share premium account £m	Other reserves £m	Foreign exchange translation reserve £m	Retained earnings £m	Total £m
<b>Balance at 1 April 2012</b>	2.8	60.2	0.1	0.6	63.4	127.1
<b>Total comprehensive income/(expense) attributable to equity shareholders of the parent</b>						
– Profit for the period	–	–	–	–	11.7	11.7
– Other comprehensive income	–	–	–	(2.6)	(6.1)	(8.7)
	–	–	–	(2.6)	5.6	3.0
<b>Transactions recorded directly in equity:</b>						
– Credit in respect of employee service costs settled by award of share options	–	–	–	–	0.6	0.6
– Tax credit in respect of share options	–	–	–	–	1.3	1.3
– Proceeds from shares issued	–	0.1	–	–	–	0.1
– Dividends paid and accrued	–	–	–	–	(5.6)	(5.6)
<b>Total contributions by and distributions to equity shareholders</b>	–	0.1	–	–	(3.7)	(3.6)
<b>Balance at 30 September 2012</b>	2.8	60.3	0.1	(2.0)	65.3	126.5
	Share capital £m	Share Premium Account £m	Other reserves £m	Foreign exchange translation reserve £m	Retained Earnings as restated* £m	Total as restated* £m
<b>Balance at 1 April 2011</b>	2.5	22.5	0.4	3.2	64.9	93.5
<b>Total comprehensive income/(expense) attributable to equity shareholders of the parent</b>						
– Profit for the period (as re-presented*)	–	–	–	–	8.9	8.9
– Other comprehensive income	–	–	(0.8)	0.5	(15.3)	(15.6)
	–	–	(0.8)	0.5	(6.4)	(6.7)
<b>Transactions recorded directly in equity:</b>						
– Credit in respect of employee service costs settled by award of share options	–	–	–	–	0.3	0.3
– Proceeds from shares issued	0.3	37.3	–	–	–	37.6
– Dividends paid and accrued (as restated*)	–	–	–	–	(4.8)	(4.8)
<b>Total contributions by and distributions to equity shareholders</b>	0.3	37.3	–	–	(4.5)	33.1
<b>Balance at 30 September 2011</b>	2.8	59.8	(0.4)	3.7	54.0	119.9

\* See note 1 for details of restatement of comparative information.

## Condensed Consolidated Statement of Changes in Equity – unaudited *continued*

	Share capital £m	Share Premium Account £m	Other reserves £m	Foreign exchange translation reserve £m	Retained earnings £m	Total £m
<b>Balance at 1 April 2011</b>	2.5	22.5	0.4	3.2	64.9	93.5
<b>Total comprehensive income/(expense) attributable to equity shareholders of the parent</b>						
– Profit for the period	–	–	–	–	24.8	24.8
– Other comprehensive income	–	–	(0.3)	(2.6)	(21.5)	(24.4)
	–	–	(0.3)	(2.6)	3.3	0.4
<b>Transactions recorded directly in equity:</b>						
– Credit in respect of employee service costs settled by award of share options	–	–	–	–	1.0	1.0
– Tax charge in respect of share options	–	–	–	–	(1.0)	(1.0)
– Proceeds from shares issued	0.3	37.7	–	–	–	38.0
– Dividends paid	–	–	–	–	(4.8)	(4.8)
<b>Total contributions by and distributions to equity shareholders</b>	0.3	37.7	–	–	(4.8)	33.2
<b>Balance at 31 March 2012</b>	2.8	60.2	0.1	0.6	63.4	127.1

# Condensed Consolidated Statement of Financial Position – unaudited

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	As at 30 September 2012 £m	As at 30 September 2011 £m as restated and re-presented*	As at 31 March 2012 £m
<b>Assets</b>			
<b>Non-current assets</b>			
Property, plant and equipment	29.9	28.0	28.2
Intangible assets	70.8	75.5	78.1
Deferred tax assets	21.0	21.0	19.3
	121.7	124.5	125.6
<b>Current assets</b>			
Inventories	60.9	64.5	59.3
Trade and other receivables	64.2	67.0	61.0
Current income tax recoverable	1.0	1.4	1.3
Derivative financial instruments	2.2	2.1	2.4
Cash and cash equivalents	37.9	19.5	35.1
	166.2	154.5	159.1
<b>Total assets</b>	287.9	279.0	284.7
<b>Equity</b>			
<b>Capital and reserves attributable to the Company's equity shareholders</b>			
Share capital	2.8	2.8	2.8
Share premium	60.3	59.8	60.2
Other reserves	0.1	(0.4)	0.1
Translation reserve	(2.0)	3.7	0.6
Retained earnings	65.3	54.0	63.4
	126.5	119.9	127.1
<b>Liabilities</b>			
<b>Non-current liabilities</b>			
Bank loans	0.7	7.0	–
Other payables	3.8	0.7	2.8
Retirement benefit obligations	40.9	29.7	35.2
Deferred tax liabilities	7.2	9.5	7.0
	52.6	46.9	45.0
<b>Current liabilities</b>			
Bank loans	0.1	0.1	–
Bank overdrafts	–	0.5	–
Trade and other payables	91.4	94.9	96.4
Current income tax payables	3.5	3.4	6.0
Accrued dividend	4.0	3.5	–
Derivative financial instruments	0.4	2.6	1.2
Provisions	9.4	7.2	9.0
	108.8	112.2	112.6
<b>Total liabilities</b>	161.4	159.1	157.6
<b>Total liabilities and equity</b>	287.9	279.0	284.7

\*See note 1 for details of restatement and re-presentation of comparative information.



## Condensed Consolidated Statement of Cash Flows – unaudited

	Half year to 30 September 2012 £m	Half year to 30 September 2011 £m as re-presented*	Year to 31 March 2012 £m
Profit for the period	11.7	8.9	24.8
Adjustments for:			
Income tax expense	5.2	4.2	11.3
Net financial expense/(income)	0.7	(0.2)	(1.4)
Other operating income	–	–	(7.0)
Reversal of acquisition related fair value adjustments	0.2	1.0	1.7
Acquisition related costs	0.6	0.7	1.5
Amortisation of acquired intangibles	5.4	4.3	11.2
Depreciation of property, plant and equipment	2.3	2.3	4.8
Amortisation and impairment of capitalised development costs	2.1	2.4	5.2
<b>Earnings before interest, tax, depreciation and amortisation</b>	<b>28.2</b>	<b>23.6</b>	<b>52.1</b>
Loss on disposal of plant, property and equipment	–	–	0.5
Cost of equity settled employee share schemes	0.6	0.3	1.0
Acquisition related costs paid	–	(0.5)	(1.0)
Cash payments to the pension scheme more than the charge to operating profit	(2.4)	(2.1)	(4.5)
<b>Operating cash flows before movements in working capital</b>	<b>26.4</b>	<b>21.3</b>	<b>48.1</b>
Increase in inventories	(2.2)	(4.8)	(0.2)
Increase in receivables	(4.7)	(7.9)	(1.7)
(Decrease)/increase in payables and provisions	(4.6)	(2.8)	5.7
Increase/(decrease) in customer deposits	0.4	4.9	(1.4)
<b>Cash generated by operations</b>	<b>15.3</b>	<b>10.7</b>	<b>50.5</b>
Interest paid	(0.5)	(1.2)	(1.1)
Income taxes paid	(5.8)	(3.4)	(7.8)
<b>Net cash from operating activities</b>	<b>9.0</b>	<b>6.1</b>	<b>41.6</b>
<b>Cash flows from investing activities</b>			
Proceeds from sale of property, plant and equipment	–	–	0.1
Proceeds from sale of product line and subsidiary	1.0	–	7.3
Interest received	0.2	–	–
Acquisition of subsidiaries, net of cash acquired	(0.2)	(40.7)	(51.6)
Acquisition of property, plant and equipment	(4.2)	(2.1)	(5.6)
Capitalised development expenditure	(1.8)	(0.9)	(2.4)
<b>Net cash used in investing activities</b>	<b>(5.0)</b>	<b>(43.7)</b>	<b>(52.2)</b>
<b>Cash flows from financing activities</b>			
Proceeds from issue of share capital	0.1	37.6	38.0
Repayment of borrowings	–	(6.0)	(13.1)
Increase in borrowings	0.8	2.5	2.5
Dividends paid	(1.6)	(1.3)	(4.8)
<b>Net cash (used in)/from financing activities</b>	<b>(0.7)</b>	<b>32.8</b>	<b>22.6</b>
Net increase/(decrease) in cash and cash equivalents	3.3	(4.8)	12.0
Cash and cash equivalents at beginning of the period	35.1	23.7	23.7
Effect of exchange rate fluctuations on cash held	(0.5)	0.1	(0.6)
<b>Cash and cash equivalents at end of the period</b>	<b>37.9</b>	<b>19.0</b>	<b>35.1</b>

# Condensed Consolidated Statement of Cash Flows – unaudited *continued*

## Reconciliation of changes in cash and cash equivalents to movement in net cash

	Half year to 30 September 2012 £m	Half year to 30 September 2011 £m	Year to 31 March 2012 £m
Increase/(decrease) in cash and cash equivalents	3.3	(4.8)	12.0
Effect of foreign exchange rate changes on cash and cash equivalents	(0.5)	0.1	(0.6)
	2.8	(4.7)	11.4
Cash outflow from decrease in debt	–	6.0	13.1
Cash inflow from increase in debt	(0.8)	(2.5)	(2.5)
Movement in net cash in the period	2.0	(1.2)	22.0
Net cash at start of the period	35.1	13.1	13.1
<b>Net cash at the end of the period</b>	<b>37.1</b>	<b>11.9</b>	<b>35.1</b>

\*See note 1 for details of re-presentation of comparative information.



# Notes on the Half Year Financial Statements

## – unaudited

### 1 BASIS OF PREPARATION OF ACCOUNTS

Oxford Instruments plc (the Company) is a company incorporated in England and Wales. The condensed consolidated half year financial statements consolidate the results of the Company and its subsidiaries (together referred to as the Group). They have been prepared and approved by the Directors in accordance with International Financial Reporting Standard (IFRS) IAS 34 Interim Financial Reporting as adopted by the EU. They do not include all of the information required for full annual financial statements, and should be read in conjunction with the consolidated financial statements of the Group for the year ended 31 March 2012.

As required by the Disclosure and Transparency Rules of the Financial Services Authority, the half year financial information has been prepared applying the accounting policies and presentation that were applied in the preparation of the Group's consolidated financial statements for the year ended 31 March 2012, except as noted below. Additional information has been included in the Condensed Consolidated Statement of Income in the form of an adjusting items column which in the opinion of the Directors enables the performance of the business to be more clearly seen.

The financial information contained herein is unaudited and does not constitute statutory accounts as defined by Section 435 of the Companies Act 2006. The comparative figures for the financial year ended 31 March 2012 are not the company's statutory accounts for that financial year. Those accounts have been reported on by the company's auditors and delivered to the registrar of companies. The report of the auditors was (i) unqualified, (ii) did not include a reference to any matters to which the auditors drew attention by way of emphasis without qualifying their report, and (iii) did not contain a statement under section 498 (2) or (3) of the Companies Act 2006.

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

In its Financial Statements to 31 March 2012 the Group reclassified certain engineering costs incurred in relation to one-off special customer orders. Such costs are now treated as research and development costs, rather than costs of sales. This is considered to be a treatment consistent with the Group's Industry peers. The effect on the Consolidated Income Statement for the half year to 30 September 2011 was to reduce costs of sales by £1.5m and increase research and development costs by the same amount, see note 4.

As required by IFRS3 the accounts as at 30 September 2011 have been re-presented in respect of the finalisation of the acquisition accounting which was provisional at the time the 30 September 2011 accounts were published. Furthermore the Group has noted that the final dividend for the year to 31 March 2011 should have been recorded as a liability at 30 September 2011 since it was approved by shareholders on 13 September 2011. Accordingly, the accounts at that date have been restated to include an amount of £3.5 million as a current liability. Equity at that date has been reduced by the same amount. There was no impact on the consolidated statement of financial position at 31 March 2011 or 2012.

The principal exchange rates used to translate the Group's overseas results were as follows:

	Half year to 30 September 2012	Half year to 30 September 2011	Year to 31 March 2012
<b>Period end rates</b>			
US Dollar	1.61	1.56	1.60
Euro	1.26	1.16	1.20
Yen	126	120	131
<b>Average translation rates</b>	<b>US Dollar</b>	<b>Euro</b>	<b>Yen</b>
<b>Half year to 30 September 2012</b>			
Quarter 1	1.58	1.23	127
Quarter 2	1.59	1.26	125
<b>Year to 31 March 2012</b>			
Quarter 1	1.63	1.13	132
Quarter 2	1.60	1.14	125
Quarter 3	1.57	1.17	121
Quarter 4	1.58	1.19	125



## 2 NON-GAAP MEASURES

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

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

	Half year to 30 September 2012 £m	Half year to 30 September 2011 £m as re-presented*	Year to 31 March 2012 £m
Profit before income tax	16.9	13.1	36.1
Reversal of acquisition related fair value adjustments to inventory	0.2	1.0	1.7
Gain on disposal of product line	–	–	(7.0)
Acquisition related costs	0.6	0.7	1.5
Amortisation of acquired intangibles	5.4	4.3	11.2
Mark to market gain in respect of derivative financial instruments	–	(0.4)	(1.5)
Adjusted profit before income tax	23.1	18.7	42.0
Share of taxation	(4.1)	(3.8)	(8.8)
Adjusted profit	19.0	14.9	33.2

\*See note 1 for details of re-presentation of comparative information.

Adjusted profit before tax excludes the reversal of acquisition related fair value adjustments to inventory to provide an adjusted profit measure that will include results from acquired businesses on a consistent basis over time to assist comparison of performance. Acquisition related costs comprise professional fees incurred in relation to mergers and acquisitions activity and any consideration which, under IFRS3 (revised), falls to be treated as a post acquisition employment expense.

On 20 October 2011 the Group disposed of a product line for a consideration of £8.1m. £1.0m of the consideration was deferred and was received during the current period. The product line was part of the Industrial Products segment. The profit on disposal was £7.0m.

On 21 March 2012 the Group transferred its ownership of Technologies and Devices Inc (TDI) to Ostendo, a privately owned company based in California. The Group has received 650,000 shares of Ostendo common stock plus \$0.7m in cash of which \$0.2m was received in October 2012. The Group considers the fair value of the shares to be nil. The profit on disposal was nil.

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

In calculating the share of tax attributable to adjusted profit before tax in the year ended 31 March 2011 a one-off recognition of deferred tax assets relating to the Group's UK businesses of £11.3m was excluded. At that time the Group announced its intention to exclude the reversal of this deferred tax from the calculation of the share of tax attributable to adjusted profit before tax in the years in which it reverses. In the year ended 31 March 2012 deferred tax of £4.6m was reversed. In the current period deferred tax of £3.2m has reversed and consequently been excluded from the tax attributable to adjusted profit before tax.

# Notes on the Half Year Financial Statements

– unaudited *continued*

### 3 SEGMENT INFORMATION

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

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

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

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

#### Half year to 30 September 2012

	Nanotechnology Tools £m	Industrial Products £m	Service £m	Total £m
External revenue	80.7	60.9	29.2	170.8
Inter-segment revenue	0.2	0.6	0.1	
Total segment revenue	80.9	61.5	29.3	
Segment operating profit	10.4	7.6	5.8	23.8

#### Half year to 30 September 2011

	Nanotechnology Tools £m	Industrial Products £m	Service £m	Total £m
External revenue	70.0	64.2	24.9	159.1
Inter-segment revenue	0.4	0.5	–	
Total segment revenue	70.4	64.7	24.9	
Segment operating profit	7.3	6.6	5.0	18.9

3 SEGMENT INFORMATION *continued*

Year to 31 March 2012

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

Reconciliation of reportable segment profit

	Half year to 30 September 2012 £m	Half year to 30 September 2011 £m as re-presented*	Year to 31 March 2012 £m
Operating profit for reportable segments	23.8	18.9	42.1
Other operating income	–	–	7.0
Reversal of acquisition related fair value adjustments to inventory	(0.2)	(1.0)	(1.7)
Acquisition related costs	(0.6)	(0.7)	(1.5)
Amortisation of acquired intangibles	(5.4)	(4.3)	(11.2)
Financial income	5.0	5.8	12.6
Financial expenditure	(5.7)	(5.6)	(11.2)
Profit before income tax	16.9	13.1	36.1

\* See note 1 for details of re-presentation of comparative information.

4 RESEARCH AND DEVELOPMENT

Total research and development spend by the Group is as follows:

	Half year to 30 September 2012 £m	Half year to 30 September 2011 £m as restated*	Year to 31 March 2012 £m as restated*
Research and development expense charged to the consolidated statement of income	12.1	12.6	25.8
Less: depreciation of R&D related fixed assets	(0.1)	(0.1)	(0.2)
Add: amounts capitalised as fixed assets	0.4	0.3	0.9
Less: amortisation and impairment of R&D costs previously capitalised as intangibles	(2.1)	(2.4)	(5.2)
Add: amounts capitalised as intangible assets	1.8	0.9	2.4
Total cash spent on research and development during the period	12.1	11.3	23.7

\* See Note 1 for details of the change in presentation in respect of Research and Development expenditure. In addition the Group has discovered that certain depreciation and capital expenditures were double counted in the calculation of cash spent in the prior year on research and development. This has been corrected in the above table resulting in an increase in the reported cash spent on research and development by £0.3 million in the half year to 30 September 2011 and £1.0 million in the year to 31 March 2012.

# Notes on the Half Year Financial Statements

– unaudited *continued*

## 5 ACQUISITIONS

### Platinum Medical Imaging LLC

On 3 November 2011 the Group acquired 100% of the share capital of Platinum Medical Imaging LLC for an initial cash consideration of £11.0m.

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

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

The book and fair value of the assets and liabilities acquired is given in the table below. The business has been acquired for the purpose of integrating into the Service segment.

	Book value £m	Adjustments £m	Fair Value £m
Intangible fixed assets	–	12.5	12.5
Tangible fixed assets	0.5	(0.2)	0.3
Inventories	0.9	0.8	1.7
Trade and other receivables	0.6	(0.3)	0.3
Trade and other payables	(0.4)	(0.4)	(0.8)
Customer deposits	(0.4)	(0.3)	(0.7)
Deferred tax	–	(0.2)	(0.2)
Overdraft	(0.1)	–	(0.1)
Net assets acquired	1.1	11.9	13.0
Goodwill			0.6
Total consideration			13.6
Overdraft acquired			0.1
Contingent consideration			(2.6)
Net cash outflow relating to the acquisition			11.1

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

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

## 6 TAXATION

The total effective tax rate on profits for the half year is 31% (2011: 32%). The weighted average tax rate in respect of adjusted profit before tax (see note 2) for the half year is 18% (2011: 20%).

The Group estimates that its full year weighted average tax rate in respect of adjusted profit before tax will be 18% (2011: 20%).

## 7 EARNINGS PER SHARE

### a) Basic

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

	Half year to 30 September 2012 Shares million	Half year to 30 September 2011 Shares million	Year to 31 March 2012 Shares million
Weighted average number of shares outstanding	56.2	53.0	54.2
Less: weighted average number of shares held by Employee Share Ownership Trust	(0.2)	(0.4)	(0.2)
<b>Weighted average number of shares used in calculation of earnings per share</b>	<b>56.0</b>	<b>52.6</b>	<b>54.0</b>

### b) Diluted

The following table shows the effect of share options on the calculation of both adjusted and unadjusted diluted basic earnings per share.

	Half year to 30 September 2012 Shares million	Half year to 30 September 2011 Shares million	Year to 31 March 2012 Shares million
Number of ordinary shares per basic earnings per share calculations	56.0	52.6	54.0
Effect of shares under option	1.0	1.6	1.1
<b>Number of ordinary shares per diluted earnings per share calculations</b>	<b>57.0</b>	<b>54.2</b>	<b>55.1</b>

## 8 DIVIDENDS PER SHARE

The following dividends per share were paid by the Group:

	Half year to 30 September 2012 pence	Half year to 30 September 2011 pence	Year to 31 March 2012 pence
Previous period interim dividend	2.772	2.52	2.52
Previous period final dividend	–	–	6.48
	<b>2.772</b>	<b>2.52</b>	<b>9.00</b>

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

	Half year to 30 September 2012 pence	Half year to 30 September 2011 pence	Year to 31 March 2012 pence
Interim dividend	3.05	2.77	2.772
Final dividend	–	–	7.228
	<b>3.05</b>	<b>2.77</b>	<b>10.000</b>

The final dividend for the year to 31 March 2012 was approved by shareholders at the Annual General Meeting held on 11 September 2012. Accordingly it is no longer at the discretion of the company and has been included as a liability as at 30 September 2012. It was paid on 25 October 2012.

The interim dividend for the year to 31 March 2013 of 3.05 pence was approved by the Board on 13 November 2012, 10% higher than the previous year and has not been included as a liability as at 30 September 2012. The interim dividend will be paid on 8 April 2013 to shareholders on the register at the close of business on 8 March 2013.

## Principal Risks and Uncertainties

The Group has in place a risk management structure and internal controls which are designed to identify, manage and mitigate risk.

In common with all businesses, Oxford Instruments faces a number of risks and uncertainties which could have a material impact on the Group's long term performance.

On pages 22 and 23 of its 2012 Annual Report and Accounts (a copy of which is available at [www.oxford-instruments.com](http://www.oxford-instruments.com)), the Company set out what the Directors regarded as being the principal risks and uncertainties facing the Group's long term performance and these are reproduced in the table below. Many of these risks are inherent to Oxford Instruments as a global business and they remain valid as regards their potential impact during the remainder of the second half of the year.

Specific Risk	Context	Risk	Possible Impact
<b>Technical Risk</b>	The Group provides high technology equipment and systems to its customers.	Failure of the advanced technologies applied by the Group to produce commercial products, capable of being manufactured and sold profitably.	<ul style="list-style-type: none"> <li>• Lower profitability and financial returns.</li> <li>• Negative impact on the Group's reputation.</li> </ul>
<b>Economic Environment</b>	The recent global recession and prevailing economic downturn have resulted in cuts to both government and private sector spending.	Demand for the Group's products may be lower than anticipated.	<ul style="list-style-type: none"> <li>• Lower profitability and financial returns.</li> </ul>
<b>Acquisitions</b>	Part of the growth of Oxford Instruments' plans is to come from acquisitions which provide the Group with complementary technologies.	Appropriate acquisition targets may not be available in the necessary timescale. Alternatively, once acquired, targets may fail to provide the planned value.	<ul style="list-style-type: none"> <li>• Lower profitability and financial returns.</li> <li>• Management focus taken away from the core business in order to manage integration issues.</li> </ul>
<b>Foreign exchange volatility</b>	A significant proportion of the Group's profit is made in foreign currencies.	The Group's profit levels are exposed to fluctuations in exchange rates.	<ul style="list-style-type: none"> <li>• Lower profitability and financial returns.</li> </ul>
<b>Outsourcing</b>	The Group's strategic plan includes the outsourcing of a significantly higher proportion of the costs of its products to benefit from economies of scale and natural currency hedges.	Failures in the supply chain impacting sales.	<ul style="list-style-type: none"> <li>• Disruption to customers.</li> <li>• Negative impact on the Group's reputation.</li> </ul>
<b>Raw material volatility</b>	The Group relies on the purchase of a significant amount of copper for the production of its superconducting wire.	If these price rises can not be passed on to customers as copper prices rise, profitability falls.	<ul style="list-style-type: none"> <li>• Lower profitability.</li> <li>• Occasional disruption to production.</li> </ul>
<b>Pensions</b>	The Group's calculated pension deficit is sensitive to changes in the actuarial assumptions.	Movements in the actuarial assumptions may have an appreciable effect on the reported pension deficit.	<ul style="list-style-type: none"> <li>• Additional cash required by the Group to fund the deficit.</li> <li>• Reduction in net assets.</li> </ul>
<b>People</b>	A number of the Group's employees are business critical. The Group's growth plan requires people and structure capable of managing the increasing size and complexity of the business.	One critical or a number of key employees in an associated work area leave the Group.	<ul style="list-style-type: none"> <li>• Performance does not meet expectations.</li> <li>• Disruption to customers.</li> <li>• Lower profitability and financial returns.</li> </ul>

The impact of the economic and end market environments in which the Group's businesses operate are considered in the Half Year Statement of this Half Year Report, together with an indication if management is aware of any likely change in this situation.



# Responsibility Statement of the Directors in respect of the Half Year Financial Statements

We confirm that to the best of our knowledge:

- the condensed set of financial statements has been prepared in accordance with IAS 34 Interim Financial Reporting as adopted by the EU;
- the interim management report includes a fair review of the information required by:
  - (a) DTR 4.2.7R of the Disclosure and Transparency Rules, being an indication of important events that have occurred during the first six months of the financial year and their impact on the condensed set of financial statements; and a description of the principal risks and uncertainties for the remaining six months of the year; and
  - (b) DTR 4.2.8R of the Disclosure and Transparency Rules, being related party transactions that have taken place in the first six months of the current financial year and that have materially affected the financial position or performance of the entity during that period; and any changes in the related party transactions described in the last annual report that could do so.

**Jonathan Flint**  
Chief Executive

**Kevin Boyd**  
Group Finance Director

13 November 2012



# Independent Review Report by KPMG Audit Plc to Oxford Instruments plc

## INTRODUCTION

We have been engaged by the company to review the condensed set of financial statements in the half-yearly financial report for the six months ended 30 September 2012 which comprises the Condensed Consolidated Statement of Income, the Condensed Consolidated Statement of Comprehensive Income, Condensed Consolidated Statement of Financial Position, Condensed Consolidated Statement of Changes in Equity, Condensed Consolidated Statement of Cash Flows and the related explanatory notes. We have read the other information contained in the half-yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

This report is made solely to the company in accordance with the terms of our engagement to assist the company in meeting the requirements of the Disclosure and Transparency Rules ("the DTR") of the UK's Financial Services Authority ("the UK FSA"). Our review has been undertaken so that we might state to the company those matters we are required to state to it in this report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company for our review work, for this report, or for the conclusions we have reached.

## DIRECTORS' RESPONSIBILITIES

The half-yearly financial report is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the half-yearly financial report in accordance with the DTR of the UK FSA.

As disclosed in note 1, the annual financial statements of the group are prepared in accordance with IFRSs as adopted by the EU. The condensed set of financial statements included in this half-yearly financial report has been prepared in accordance with IAS 34 Interim Financial Reporting as adopted by the EU.

## OUR RESPONSIBILITY

Our responsibility is to express to the company a conclusion on the condensed set of financial statements in the half-yearly financial report based on our review.

## SCOPE OF REVIEW

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410 Review of Interim Financial Information Performed by the Independent Auditor of the Entity issued by the Auditing Practices Board for use in the UK. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

## CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 30 September 2012 is not prepared, in all material respects, in accordance with IAS 34 as adopted by the EU and the DTR of the UK FSA.

### S Haydn-Jones

for and on behalf of KPMG Audit Plc  
Chartered Accountants  
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Birmingham, B4 6GH

13 November 2012

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