Oxford Instruments plc

Half Year Report September 2011

OXFORD INSTRUMENTS

The Business of Science®

Oxford Instruments plc

Summary of Half Year Results

	2011 £m	2010 £m
Orders	**174.8**	141.3
Revenue	**159.1**	113.2
Adjusted operating profit	**18.9**	11.9
Adjusted profit before tax	**18.7**	10.6
Net cash/(borrowing)	**11.9**	(3.9)
Shareholders' equity	**122.8**	59.6
	2011 Pence per share	2010 pence per share
Adjusted basic earnings	**28.2**	17.4
Basic earnings	**15.6**	20.7
Proposed dividends	**2.77**	2.52
Net assets	**222.3**	119.6
Employees at half year end	**1,896**	1,506

About Us

Oxford Instruments is a leading provider of high technology tools and systems for research and industry. It designs and manufactures equipment that can fabricate, analyse and manipulate matter at the atomic level. Nanotechnology applications are today being used to address some of the world's most pressing problems across a broad range of industries and Oxford Instruments is equipping those industries, worldwide.

The global challenges we face today cannot be addressed without a partnership between the commercial and the academic sectors. Companies like Oxford Instruments form the bridge between science and the consumer. Science is capable of coming up with the solutions to many of society's problems and Oxford Instruments turns that smart science into commercially successful products.

- Oxford Instruments' X-ray Fluorescence (XRF) and Optical Emissions Spectroscopy (OES) analysers are being used for quality control and environmental monitoring applications across a wide range of industries. They detect hazardous substances in materials, metals, soil, petrochemicals and consumer goods.
- Benchtop Nuclear Magnetic Resonance (NMR) and XRF analysers are being used to analyse fat in foods, nutrients in rice and oil in seeds.
- The search for a sustainable, practical, renewable source of energy is one of the major global issues of the 21st Century. The multinational ITER programme seeks to find a solution by harnessing fusion power. Oxford Instruments supplies the high performance superconducting wire for the vast electromagnet that will lie at the heart of the ITER facility.
- Oxford Instruments is providing plasma etch and deposition tools to the developers of high brightness light emitting diodes and photovoltaic devices. They are seeking to produce carbon efficient lighting and cost effective solutions for turning sunlight into electricity.
- Next generation systems for the analysis of materials on electron microscopes are being used in the development of new, stronger and safer materials and pharmaceuticals and forensic science.
- Oxford Instruments' innovative range of liquid helium free cryogenic systems are used in fundamental physics research into cutting edge applications, such as quantum information processing, which is widely predicted to be the basis of a new generation of ultra fast computers required for applications such as financial security, climate modelling and drug development.

Half Year Statement

The Group delivered an excellent first half result driven by new product introductions, and a market environment which has remained robust for our products. Revenue grew by 41% to £159 million (2010: £113 million); excluding acquisitions, organic growth was 30%. Adjusted profit before tax grew by 76% to £18.7 million (2010: £10.6 million). In the half year our adjusted operating margin continued to increase, rising to 11.9% from 10.5% in the prior year in line with our 14 Cubed plan to achieve operating margins of 14% by 2014. In September 2011, the Group was admitted to the FTSE250 index.

Group order intake increased to £175 million, a rise of 24%, and the order pipeline and other forward looking indicators remain strong. Orders in China grew particularly strongly, up 53%. In recognition of the potential of the India market we have now appointed a senior executive as a Country Manager for that region.

Both our research and industrial markets continue to be strong. We were able to maintain pricing in the period, supported by the strength of our brand and the quality of our innovative technology. Our strong organic growth continues to be supported by our focused R&D programme. In the half year, we increased our R&D cash spend by 42% to £10.5 million, reflecting the opportunities we see to increase market share through the introduction of new technologies.

We completed two acquisitions in the first half of the year financed through a placing of ordinary shares. Omicron, based in Frankfurt, which employs 206 people in Germany, the UK, USA, Japan and France, designs and produces advanced microscopes and chemical analysis instruments for nanotechnology research. Omniprobe, a US company employing 22 people based in Dallas, designs and produces tools giving customers nano-scale laboratory capabilities within electron microscopes. These businesses are integrating well into the Group and are performing to plan. After the end of the period we acquired Platinum Medical Imaging, a US company providing high quality parts and services for MRI and CT medical imaging instruments. Further commentary is provided in our Service sector review below.

We are now 7 months into 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 2.772 pence, 10% higher than the previous year, payable on 10 April 2012 to shareholders who are on the register on 9 March 2012.

Nanotechnology Tools Sector

	2011 £m	2010 £m
Revenue	70.4	49.2
Operating profit	7.3	5.8

Our Nanotechnology Tools sector represents 44% of Group revenue. It produces high performance instruments and systems for customers working in scientific research and with advanced industrial processes. The sector comprises four businesses; NanoAnalysis, Plasma Technology, NanoScience and the recently acquired Omicron NanoTechnology. This business continues to show solid growth, despite a reduction in research demand in Japan following the earthquake in March 2011. With the exception of Japan, which is expected to return to growth in research spending in 2012, we have seen no evidence of a reduction in research funding from governments world-wide.

In April 2011, we launched a new material characterisation system, Aztec®, comprising latest generation Nanoanalysis detector hardware and multi-tasking software. Aztec orders have shown strong growth and exceeded expectations. Over-capacity in the high brightness LED (HBLED) market has led to a softening in demand for our HBLED fabrication tools but this was more than offset by the growth in orders for other Plasma Technology products. In particular, we have seen growth in the research market for next generation solar cells resulting in significant orders in the USA and Europe, and in the markets for our MEMS (Micro Electro Mechanical System) tools.

Omicron NanoTechnology was acquired in June this year and enables us to offer our customers in the Nanotechnology Tools sector a broader range of tools and solutions. Omicron supplies sophisticated, multi-technique systems that includes Scanning Probe Microscopy (SPM), Electron Spectroscopy and Ultra High Vacuum solutions for customers working at the cutting-edge of physics research. This business is performing as expected.

The acquisition of Omniprobe has enhanced our product range by offering innovative nano-manipulation tools for sample preparation on electron and ion beam microscopes. Omniprobe has contributed as expected to the Group.

Industrial Products Sector

	2011 £m	2010 £m
Revenue	**64.7**	44.3
Operating profit	**6.6**	2.0

The Industrial Products sector represents 40% of Group revenue. It comprises the Industrial Analysis, Magnetic Resonance and Superconducting Wire businesses. With effect from this half year, we have reported our Austin Scientific business in this sector rather than the Service sector due to the growth in orders for industrial products. This sector showed good growth and a marked improvement in profitability.

We saw strong growth for handheld X-ray Fluorescence products and Optical Emission metal analysers. We launched a new portable analyser which has generated considerable interest from both new and existing customers and demand for our Industrial Analysis products in general remains strong. Emerging markets, particularly India, continue to offer an important growth opportunity for this business. On 20 October 2011, we rationalised the Industrial Analysis product offering by disposing of a non-core product line that we produced for a single customer, to that customer. The increasing demand for next generation, higher magnetic field scanners continues to drive growth in our Superconducting Wire business. Deliveries to the international ITER energy programme remain on track. In the period we received a further order for wire from Fusion for Energy, the European procurement Agency for ITER. The Austin Scientific business won a substantial order for cryogenic equipment used in advanced materials processing and shipments have commenced.

Service Sector

	2011 £m	2010 £m
Revenue	**24.9**	20.9
Operating profit	**5.0**	4.1

Our Service business represents 16% of Group revenue. 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.

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. All three revenue streams are performing well with particular growth coming from contract sales, especially in the USA. We are also seeing increasing service revenues from Asia which traditionally has been slow to accept fixed price, fixed term service contracts.

On 4 November 2011 we completed the acquisition of Platinum Medical Imaging, our first acquisition within the Service sector. Platinum is an established US company with 33 staff across two sites in Florida and California providing high quality parts and services for MRI (Magnetic Resonance Imaging) and CT (Computed Tomography) medical imaging instruments. There is a growing opportunity in this third party service market in the USA due to healthcare reforms encouraging medical imaging facilities to move to more cost effective service providers. The combination of Platinum with Oxford Instruments' existing MRI Service business in North America significantly strengthens the Group's Service Sector by providing broader service offerings and the opportunity for the further development of global service. We expect the acquisition to be earnings enhancing in the current year.

Financial Review

Orders of £174.8 million were £33.5 million ahead of the same period last year. Excluding the contribution from the two acquisitions made in June, organic order growth was £21.4 million or 15.1%.

Revenues in the half year grew by 40.5% (£45.9 million) to £159.1 million. Revenues from acquisitions in the period were £13.3 million, adverse foreign currency exchange rate movements reduced sales by £2.6 million while increasing copper prices increased sales by £1.3 million (there was no impact on profits as movements in the price of copper are passed on to our customers). Organic volume growth was 30.0%.

In our Nanotechnology Tools sector, sales grew by £21.2 million. Both of the acquisitions made in the half year are in this sector and sales (excluding service) contributed £12.2 million of the growth. Underlying organic growth was 18.3% with revenue growth in all businesses.

The Industrial Products sector grew by 46.0%, helped by a full half year of shipments of superconducting wire to the ITER programme, which had only begun towards the end of the prior period, and also by the contract won by our Austin Scientific business. Austin Scientific has previously been reported as part of our Service sector but due to its strong growth in physical product sales, it is now included in the Industrial Products sector. In line with the other businesses, its service revenues will continue to be reported in the Service sector.

Service sector revenues grew by 19.1% helped by the increase in the installed service base over recent years and internal initiatives to grow sales of fixed price, fixed term service contracts. Excluding the service revenue from the acquisitions, organic growth was 13.9%.

The particularly strong performance of Superconducting Wire and Austin Scientific, two of our lower margins businesses, led to an adverse mix variance resulting in a drop in average adjusted Group gross margins from 43.1% to 41.8%. Constant currency operating expenses, excluding acquisitions, increased by £6.6 million, with the majority of the increase relating to R&D costs. Foreign exchange effects added £0.4 million, while the operating costs of the acquisitions added £3.9 million, resulting in a net increase of £10.9 million in reported operating expenses.

Adjusted operating profit increased by £7.0 million to £18.9 million, giving an adjusted operating profit margin of 11.9% (2010: 10.5%). Net bank interest reduced by £0.3 million to £0.5 million, and net interest on the pension fund changed from a charge of £0.5 million to a credit of £0.3 million due to the reduced deficit at the end of March. As a result adjusted profit before tax rose £8.1 million to £18.7 million.

The ability to utilise brought forward tax losses in the UK has kept the adjusted tax rate at 20% (2010: 20%) which leads to adjusted earnings per share (EPS) of 28.2 pence, an increase of 10.8 pence. Reported EPS fell by 5.1 pence to 15.6 pence 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.

At the period end net cash was £11.9 million (31 March 2011: £13.1 million, 2010: £3.9 million debt). Cash outflow in the period was £1.2 million (2010: £6.5 million inflow). Acquisitions in the period accounted for an outflow of £40.7 million while an equity issue of 9.9% of the issued share capital of the Group in June 2011 raised £37.6 million net of fees. 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 £18.0 million to £29.7 million since 31 March 2011. Assets have fallen by 3% to £167.4 million while liabilities have increased by 7% to £197.1 million due mainly to the reduction in corporate bond yields used to discount liabilities.

Acquisitions and Disposals
On 13 June 2011 the Group made two acquisitions; Omicron NanoTechnology GmbH for £28.3 million and Omniprobe Inc. for £12.3 million. The acquisitions contributed revenues of £13.3 million and adjusted operating profit of £1.9 million to the Group's result for the half year.

After the period end, on 20 October the Group disposed of a product line for consideration of £8.1 million, £7.1 million was paid on completion, with a further £1.0 million receivable on the completion of a Transitional Services Agreement.

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

People
We are pleased to welcome further talented people to Oxford Instruments, who join us from newly acquired businesses and as a result of 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. Our broad spread of geographies and technologies, and our strong pipeline of new products should help us to remain resilient in the event of a global economic downturn. We are continuing our active pursuit of acquisitions that have the potential to enhance shareholder value and add to our range of technical capabilities.

Trading since the period end has remained strong and the Board believes that performance in the second half of the year is likely to exceed that of the first half.

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

Nigel Keen
Chairman
15 November 2011

Jonathan Flint
Chief Executive

Condensed Consolidated Statement of Income

Half year ended 30 September 2011 – unaudited

		Half Year to 30 Sept 2011			Half Year to 30 Sept 2010		
	Notes	**Before adjusting items***	**Adjusting items***	**Total**	Before adjusting items*	Adjusting items*	Total
Revenue	3	**159.1**	**-**	**159.1**	113.2	-	113.2
Cost of sales		**(92.6)**	**(1.0)**	**(93.6)**	(64.4)	-	(64.4)
Gross profit		**66.5**	**(1.0)**	**65.5**	48.8	-	48.8
Research and development	4	**(11.1)**	**-**	**(11.1)**	(6.9)	-	(6.9)
Selling and marketing		**(22.3)**	**-**	**(22.3)**	(19.1)	-	(19.1)
Administration and shared services		**(14.4)**	**(5.6)**	**(20.0)**	(10.9)	1.4	(9.5)
Foreign exchange		**0.2**	**-**	**0.2**	-	-	-
Operating profit		**18.9**	**(6.6)**	**12.3**	11.9	1.4	13.3
Expected return on pension scheme assets		**5.4**	**-**	**5.4**	4.8	-	4.8
Other financial income		**-**	**0.4**	**0.4**	0.1	1.2	1.3
Financial income		**5.4**	**0.4**	**5.8**	4.9	1.2	6.1
Interest charge on pension scheme liabilities		**(5.1)**	**-**	**(5.1)**	(5.3)	-	(5.3)
Other financial expenditure		**(0.5)**	**-**	**(0.5)**	(0.9)	-	(0.9)
Financial expenditure		**(5.6)**	**-**	**(5.6)**	(6.2)	-	(6.2)
Profit before income tax	3	**18.7**	**(6.2)**	**12.5**	10.6	2.6	13.2
Income tax (expense)/credit	6	**(3.8)**	**(0.4)**	**(4.2)**	(2.1)	(0.9)	(3.0)
Profit for the period attributable to equity shareholders of the parent		**14.9**	**(6.6)**	**8.3**	8.5	1.7	10.2
		pence		**pence**	pence		pence
Earnings per share							
Basic earnings per share	7	**28.2**		**15.6**	17.4		20.7
Diluted earnings per share	7	**27.4**		**15.1**	17.1		20.3
Dividends per share							
Dividends paid	8			**2.52**			2.40
Dividends proposed	8			**2.77**			2.52

* Adjusting items comprise pension scheme curtailment gains, shareholder earnout no longer required, impairments, amortisation of acquired intangibles, reversal of acquisition related fair value adjustments to inventory, acquisition costs and mark to market gains or losses in respect of certain derivatives and the related amounts of taxation. They also include the utilisation of the one-off recognition of a deferred tax asset in 2011. See note 2.

Condensed Consolidated Statement of Income

Half year ended 30 September 2011 – unaudited

	Notes			*Year to 31 March 2011*
		*Before adjusting items**	*Adjusting items**	*Total*
Revenue	3	*262.3*	-	262.3
Cost of sales		*(152.8)*	-	(152.2)
Gross profit		*109.5*	-	109.5
Research and development	4	*(17.6)*	-	(17.6)
Selling and marketing		*(39.9)*	-	(39.9)
Administration and shared services		*(23.3)*	*(0.6)*	(23.9)
Foreign exchange		*(0.6)*	-	(0.6)
Operating profit		*28.1*	*(0.6)*	27.5
Expected return on pension scheme assets		*9.9*	-	9.9
Other financial income		-	*1.1*	1.1
Financial income		*9.9*	*1.1*	11.0
Interest charge on pension scheme liabilities		*(10.6)*	-	(10.6)
Other financial expenditure		*(1.2)*	-	(1.2)
Financial expenditure		*(11.8)*	-	(11.8)
Profit before income tax		*26.2*	*0.5*	26.7
Income tax (expense)/credit	6	*(5.7)*	*11.2*	5.5
Profit for the period attributable to equity shareholders of the parent		*20.5*	*11.7*	32.2
		pence		*pence*
Earnings per share				
Basic earnings per share	7	*41.5*		*65.3*
Diluted earnings per share	7	*40.4*		*63.6*
Dividends per share				
Dividends paid	8			*8.40*
Dividends proposed	8			*9.00*

* Adjusting items comprise pension scheme curtailment gains, shareholder earnout no longer required, impairments, amortisation of acquired intangibles, reversal of acquisition related fair value adjustments to inventory, acquisition costs and mark to market gains or losses in respect of certain derivatives and the related amounts of taxation. They also include the utilisation of the one-off recognition of a deferred tax asset in 2011. See note 2.

Condensed Consolidated Statement of Comprehensive Income

Half year ended 30 September 2011 - unaudited

	Half year to 30 Sept 2011 £m	Half year to 30 Sept 2010 £m	*Year to 31 March 2011 £m*
Profit for the period	**8.3**	10.2	*32.2*
Other comprehensive (expense)/income			
Foreign exchange translation differences	**0.5**	(1.1)	*(0.9)*
Actuarial (loss)/gain in respect of post retirement benefits	**(20.4)**	(1.6)	*14.4*
Net (loss)/gain on effective portion of changes in fair value of cash flow hedges, net of amounts recycled	**(1.2)**	0.1	*0.3*
Tax on items recognised directly in equity	**5.5**	0.5	*(4.6)*
Tax recognised in respect of share options	**-**	-	*2.7*
Total other comprehensive (expense)/income	**(15.6)**	(2.1)	*11.9*
Total comprehensive (expense)/income for the period attributable to equity shareholders of the parent	**(7.3)**	8.1	*44.1*

Condensed Consolidated Statement of Changes in Equity

Half year ended 30 September 2011 - unaudited

	Share capital £m	Share premium account £m	Other reserves £m	Foreign exchange translation reserve £m	Retained earnings £m	Total £m
Balance at 1 April 2011	**2.5**	**22.5**	**0.4**	**3.2**	**64.9**	**93.5**
Total comprehensive income/(expense) attributable to equity shareholders of the parent						
-Profit	**-**	**-**	**-**	**-**	**8.3**	**8.3**
-Other comprehensive income	**-**	**-**	**(0.8)**	**0.5**	**(15.3)**	**(15.6)**
Transactions recorded directly in equity:						
- 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	**-**	**-**	**-**	**-**	**(1.3)**	**(1.3)**
Total contributions by and distributions to equity shareholders	**0.3**	**37.3**	**-**	**-**	**(1.0)**	**36.6**
Balance at 30 September 2011	**2.8**	**59.8**	**(0.4)**	**3.7**	**56.9**	**122.8**

	Share capital £m	Share premium account £m	Other reserves £m	Foreign exchange translation reserve £m	Retained earnings £m	Total £m
Balance at 1 April 2010	2.5	21.6	0.2	4.1	23.8	52.2
Total comprehensive income/(expense) attributable to equity shareholders of the parent						
-Profit for the period	-	-	-	-	10.2	10.2
-Other comprehensive income	-	-	0.1	(1.1)	(1.1)	(2.1)
Transactions recorded directly in equity:						
- Credit in respect of employee service costs settled by award of share options	-	-	-	-	0.2	0.2
- Proceeds from shares issued	-	0.3	-	-	-	0.3
- Dividends paid	-	-	-	-	(1.2)	(1.2)
Total contributions by and distributions to equity shareholders	-	0.3	-	-	(1.0)	(0.7)
Balance at 30 September 2010	2.5	21.9	0.3	3.0	31.9	59.6

	Share capital £m	*Share premium account £m*	*Other reserves £m*	*Foreign exchange translation reserve £m*	*Retained earnings £m*	*Total £m*
Balance at 1 April 2010	*2.5*	*21.6*	*0.2*	*4.1*	*23.8*	*52.2*
Total comprehensive income/(expense) attributable to equity shareholders of the parent						
-Profit for the period	-	-	-	-	*32.2*	*32.2*
-Other comprehensive income	-	-	*0.2*	*(0.9)*	*12.6*	*11.9*
Transactions recorded directly in equity:						
- Credit in respect of employee service costs settled by award of share options	-	-	-	-	*0.4*	*0.4*
- Proceeds from shares issued	-	*0.9*	-	-	-	*0.9*
- Dividends paid	-	-	-	-	*(4.1)*	*(4.1)*
Total contributions by and distributions to equity shareholders	-	*0.9*	-	-	*(3.7)*	*(2.8)*
Balance at 31 March 2011	*2.5*	*22.5*	*0.4*	*3.2*	*64.9*	*93.5*

Condensed Consolidated Statement of Financial Position

As at 30 September 2011 - unaudited

	As at 30 Sept 2011 £m	As at 30 Sept 2010 £m	*As at 31 March 2011 £m*
Assets			
Non-current assets			
Property, plant and equipment	**28.2**	22.2	*23.6*
Intangible assets	**75.1**	46.1	*41.6*
Deferred tax assets	**21.0**	12.3	*17.4*
	124.3	80.6	*82.6*
Current assets			
Inventories	**65.3**	48.1	*46.6*
Trade and other receivables	**68.6**	48.9	*52.5*
Current income tax recoverable	**1.4**	1.1	*1.3*
Derivative financial instruments	**2.1**	1.3	*1.0*
Cash and cash equivalents	**19.5**	17.2	*24.5*
	156.9	116.6	*125.9*
Total assets	**281.2**	197.2	*208.5*

Equity			
Capital and reserves attributable to the Company's equity shareholders			
Share capital	**2.8**	2.5	*2.5*
Share premium	**59.8**	21.9	*22.5*
Other reserves	**(0.4)**	0.3	*0.4*
Translation reserve	**3.7**	3.0	*3.2*
Retained earnings	**56.9**	31.9	*64.9*
	122.8	59.6	*93.5*
Liabilities			
Non-current liabilities			
Bank loans	**7.0**	19.6	*10.5*
Other payables	**0.7**	0.8	*0.1*
Retirement benefit obligations	**29.7**	29.9	*11.7*
Deferred tax liabilities	**10.7**	6.1	*4.1*
	48.1	56.4	*26.4*
Current liabilities			
Bank loans	**0.1**	0.1	*0.1*
Bank overdrafts	**0.5**	1.4	*0.8*
Trade and other payables	**96.5**	68.9	*76.5*
Current income tax payables	**3.4**	4.3	*3.4*
Derivative financial instruments	**2.6**	1.7	*1.1*
Provisions	**7.2**	4.8	*6.7*
	110.3	81.2	*88.6*
Total liabilities	**158.4**	137.6	*115.0*
Total liabilities and equity	**281.2**	197.2	*208.5*

Condensed Consolidated Statement of Cash Flows

Half year ended 30 September 2011 - unaudited

	Half year to 30 Sept 2011 £m	Half year to 30 Sept 2010 £m	*Year to 31 March 2011 £m*
Profit for the period	**8.3**	10.2	*32.2*
Adjustments for:			
Income tax expense/(credit)	**4.2**	3.0	*(5.5)*
Net financial (income)/expense	**(0.2)**	0.1	*0.8*
Curtailment gains	**-**	(3.8)	*(4.1)*
Shareholder earnout no longer required	**-**	-	*(0.6)*
Impairment	**-**	0.6	*0.6*
Reversal of acquisition related fair value adjustments	**1.0**	-	*-*
Acquisition related costs	**0.7**	-	*-*
Amortisation of acquired intangibles	**4.9**	1.8	*4.7*
Depreciation of property, plant and equipment	**2.3**	1.7	*4.0*
Amortisation and impairment of capitalised development costs	**2.4**	2.0	*5.4*
Earnings before interest, tax, depreciation and amortisation	**23.6**	15.6	*37.5*
Cost of equity settled employee share schemes	**0.3**	0.2	*0.4*
Acquisition related costs paid	**(0.5)**	-	*-*
Cash payments to the pension scheme more than the charge to operating profit	**(2.1)**	(3.5)	*(5.6)*
Operating cash flows before movements in working capital	**21.3**	12.3	*32.3*
Increase in inventories	**(4.8)**	(9.7)	*(8.2)*
(Increase)/decrease in receivables	**(7.9)**	11.3	*7.4*
(Decrease)/increase in payables and provisions	**(2.8)**	(4.7)	*8.8*
Increase/(decrease) in customer deposits	**4.9**	2.9	*(1.1)*
Cash generated by operations	**10.7**	12.1	*39.2*
Interest paid	**(1.2)**	(0.4)	*(0.8)*
Income taxes paid	**(3.4)**	(0.7)	*(3.1)*
Net cash from operating activities	**6.1**	11.0	*35.3*
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment	**-**	0.1	*0.1*
Acquisition of subsidiaries, net of cash acquired	**(40.7)**	(0.1)	*(0.1)*
Acquisition of property, plant and equipment	**(2.1)**	(2.1)	*(5.8)*
Capitalised development expenditure	**(0.9)**	(1.6)	*(3.0)*
Net cash used in investing activities	**(43.7)**	(3.7)	*(8.8)*
Cash flows from financing activities			
Proceeds from issue of share capital	**37.6**	0.3	*0.9*
Repayment of borrowings	**(6.0)**	-	*(19.1)*
Increase in borrowings	**2.5**	-	*10.0*
Dividends paid	**(1.3)**	(1.2)	*(4.1)*
Net cash from financing activities	**32.8**	(0.9)	*(12.3)*
Net (decrease)/increase in cash and cash equivalents	**(4.8)**	6.4	*14.2*
Cash and cash equivalents at beginning of the period	**23.7**	9.3	*9.3*
Effect of exchange rate fluctuations on cash held	**0.1**	0.1	*0.2*
Cash and cash equivalents at end of the period	**19.0**	15.8	*23.7*

Reconciliation of changes in cash and cash equivalents to movement in net cash/(borrowing)

(Decrease)/Increase in cash and cash equivalents	**(4.8)**	6.4	*14.2*
Effect of foreign exchange rate changes on cash and cash equivalents	**0.1**	0.1	*0.2*
	(4.7)	6.5	*14.4*
Cash outflow from decrease in debt	**6.0**	-	*19.1*
Cash inflow from increase in debt	**(2.5)**	-	*(10.0)*
Movement in net cash/borrowing in the period	**(1.2)**	6.5	*23.5*
Net cash/(borrowing) at start of the period	**13.1**	(10.4)	*(10.4)*
Net cash/(borrowing) at the end of the period	**11.9**	(3.9)	*13.1*

Notes on the Half Year Financial Statements

Half year ended 30 September 2011 – unaudited

1 BASIS OF PRESENTATION 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 2011.

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 2011, 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 Austin Scientific business has been moved to the Industrial Products segment (see note 3).

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 2011 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.

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

Period end rates	**Half year to 30 Sept 2011**	Half year to 30 Sept 2010	*Year to 31 March 2011*
US Dollar	**1.56**	1.58	*1.60*
Euro	**1.16**	1.15	*1.13*
Yen	**120**	131	*133*

Average translation rates	US Dollar	Euro	Yen
Half year to 30 September 2011			
Quarter 1	**1.63**	**1.13**	**132**
Quarter 2	**1.60**	**1.14**	**125**
Year to 31 March 2011			
Quarter 1	*1.50*	*1.17*	*138*
Quarter 2	*1.55*	*1.20*	*133*
Quarter 3	*1.57*	*1.17*	*130*
Quarter 4	*1.58*	*1.16*	*131*

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 Sept 2011 £m	Half year to 30 Sept 2010 £m	*Year to 31 March 2011 £m*
Profit before income tax	**12.5**	13.2	*26.7*
Pension scheme curtailment gain	**-**	(3.8)	*(4.1)*
Shareholder earnout no longer required	**-**	-	*(0.6)*
Reversal of acquisition related fair value adjustments to inventory	**1.0**	-	-
Acquisition related costs	**0.7**	-	-
Impairment	**-**	0.6	*0.6*
Amortisation of acquired intangibles	**4.9**	1.8	*4.7*
Mark to market gain in respect of derivative financial instruments	**(0.4)**	(1.2)	*(1.1)*
Adjusted profit before income tax	**18.7**	10.6	*26.2*
Share of taxation	**(3.8)**	(2.1)	*(5.7)*
Adjusted profit	**14.9**	8.5	*20.5*

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

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. Adjusted profit for the year is stated before changes in the valuation of these instruments so that the underlying performance of the Group can more clearly be seen.

In calculating the share of tax attributable to adjusted profit before tax in the prior year a one-off recognition of deferred tax assets relating to the Group's UK businesses of £11.3m 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 current period deferred tax of £1.8m has reversed and consequently been excluded from the tax attributable to adjusted profit before tax.

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

During the prior year, the Group recognised other operating income of £0.6m in relation to a shareholder earnout provided at the time of the acquisition of Technologies and Devices Inc. and which is no longer required.

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

3 SEGMENT INFORMATION

The Group has nine operating segments. 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.

These operating segments have been aggregated 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. The Group's internal management structure and financial reporting systems differentiate the operating segments on the basis of these economic characteristics and accordingly present these as three separate reportable segments as discussed below.

- The Nanotechnology Tools segment contains a group of businesses supplying similar high performance instruments and systems, characterised by a high degree of customisation and high unit prices. These are the Group's highest technology products and are sold to customers working in scientific research and with advanced industrial processes.

- The Industrial Products segment contains a group of businesses supplying high technology tools and systems, 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.

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.

No asset information is presented below as this information is not allocated to operating segments in reporting to the Group's Board of Directors.

Due to strong growth in its physical product sales, the Directors decided during the period that it was no longer appropriate to regard the Austin Scientific business as a service business. Consequently, it is now included within the Industrial Products segment and the comparatives have been restated accordingly. In line with the other businesses, its service revenues will continue to be reported in the Service segment.

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**

Half year to 30 September 2010 (As restated)

	Nanotechnology Tools £m	Industrial Products £m	Service £m	Total £m
External revenue	49.0	43.3	20.9	113.2
Inter-segment revenue	0.2	1.0	-	
Total segment revenue	49.2	44.3	20.9	
Segment operating profit	5.8	2.0	4.1	11.9

Year to 31 March 2011 (As restated)

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

Reconciliation of reportable segment profit

	Half year to 30 Sept 2011 £m	Half year to 30 Sept 2010 £m	*Year to 31 March 2011 £m*
Operating profit for reportable segments	18.9	11.9	*28.1*
Shareholder earn-out no longer required	-	-	*0.6*
Curtailment gain	-	3.8	*4.1*
Reorganisation costs and impairment	-	(0.6)	*(0.6)*
Unwinding of acquisition related fair value adjustments to inventory	(1.0)	-	-
Acquisition related costs	(0.7)	-	-
Amortisation of acquired intangibles	(4.9)	(1.8)	*(4.7)*
Financial income	5.8	6.1	*11.0*
Financial expenditure	(5.6)	(6.2)	*(11.8)*
Profit before income tax	12.5	13.2	*26.7*

4 RESEARCH AND DEVELOPMENT

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

	Half year to 30 Sept 2011 £m	Half year to 30 Sept 2010 £m	*Year to 31 March 2011 £m*
Research and development expense charged to the consolidated statement of income	**11.1**	6.9	*17.6*
Less: depreciation of R&D related fixed assets	**(0.4)**	(0.2)	*(0.6)*
Add: amounts capitalised as fixed assets	**0.3**	0.5	*2.3*
Less: amortisation and impairment of R&D costs previously capitalised as intangibles	**(2.4)**	(2.0)	*(5.4)*
Add: amounts capitalised as intangible assets	**0.9**	1.6	*3.0*
Add: amounts expensed within cost of sales	**1.0**	0.6	*1.1*
Total cash spent on research and development during the period	**10.5**	7.4	*18.0*

5 ACQUISITIONS

Omicron NanoTechnology GmbH

On 13 June 2011 the Group acquired 100% of the share capital of Omicron NanoTechnology GmbH. Omicron NanoTechnology GmbH specialises in the manufacture of very high end microscopes for nanotechnology research and is headquartered in Taunusstein, Germany. It has a manufacturing facility in East Grinstead, UK and sales offices in the US, France and Japan. The book and provisional fair value of the assets and liabilities acquired is given in the table below. Provisional values have been used because the initial accounting is incomplete at the date of this report. The business has been integrated into the Nanotechnology Tools segment.

	Book value £m	Provisional adjustments £m	Provisional fair value £m
Intangible Fixed Assets	-	27.8	27.8
Tangible Fixed Assets	6.2	(1.7)	4.5
Inventories	14.1	(0.5)	13.6
Trade and other receivables	7.2	(0.5)	6.7
Trade and other payables	(6.8)	-	(6.8)
Customer deposits	(10.5)	-	(10.5)
Deferred tax liabilities	-	(8.0)	(8.0)
Cash	1.4	-	1.4
Net assets acquired	11.6	17.1	28.7
Goodwill			1.0
Total consideration			29.7
Cash acquired			(1.4)
Net cash outflow relating to the acquisition			28.3

The goodwill arising is considered to represent the value of the acquired workforce.

Omniprobe, Inc.

On 13 June 2011 the Group acquired 100% of the share capital of Omniprobe, Inc. Omniprobe, Inc. designs and manufactures nano-manipulators for use within scanning electron microscopes and is headquartered in Dallas, USA. The book and provisional fair value of the assets and liabilities acquired is given in the table below. . Provisional values have been used because the initial accounting is incomplete at the date of this report. The business has been integrated into the Nanotechnology Tools segment.

	Book value £m	Provisional adjustments £m	Provisional fair value £m
Intangible Fixed Assets	0.2	11.4	11.6
Tangible Fixed Assets	0.6	(0.3)	0.3
Inventories	0.5	-	0.5
Trade and other receivables	0.6	-	0.6
Trade and other payables	(0.3)	(0.1)	(0.4)
Cash	0.3	-	0.3
Net assets acquired	1.9	11.0	12.9
Goodwill			0.2
Total consideration			13.1
Cash acquired			(0.3)
Deferred consideration			(0.5)
Net cash outflow relating to the acquisition			12.3

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

Together, both acquisitions contributed revenue of £13.3m, an operating loss of £1.9m and adjusted operating profit of £1.9m to the Group's result for the period. Had the acquisitions taken place on 1 April these amounts would have been £22.8m, £2.7m and £3.2m respectively.

6 TAXATION

The total effective tax rate on profits for the half year is 34% (2010: 23%). The weighted average tax rate in respect of adjusted profit before tax (see note 2) for the half year is 20% (2010: 20%).

The Group estimates that its full year weighted average tax rate in respect of adjusted profit before tax will be 20% (2010: 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 Sept 2011 Shares million	Half year to 30 Sept 2010 Shares million	*Year to 31 March 2011 Shares million*
Weighted average number of shares outstanding	**53.0**	49.4	*49.7*
Less: weighted average number of shares held by Employee Share Ownership Trust	**(0.4)**	(0.5)	*(0.4)*
Weighted average number of shares used in calculation of earnings per share	**52.6**	48.9	*49.3*

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 Sept 2011 Shares million	Half year to 30 Sept 2010 Shares million	*Year to 31 March 2011 Shares million*
Number of ordinary shares per basic earnings per share calculations	**52.6**	48.9	*49.3*
Effect of shares under option	**1.6**	1.1	*1.4*
Number of ordinary shares per diluted earnings per share calculations	**54.2**	50.0	*50.7*

8 DIVIDENDS PER SHARE

The following dividends per share were paid by the Group:

	Half year to 30 Sept 2011 pence	Half year to 30 Sept 2010 pence	*Year to 31 March 2011 pence*
Previous period interim dividend	**2.52**	2.40	*2.40*
Previous period final dividend	**-**	-	*6.00*
	2.52	2.40	*8.40*

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

	Half year to 30 Sept 2011 Pence	Half year to 30 Sept 2010 pence	*Year to 31 March 2011 Pence*
Interim dividend	**2.77**	2.52	*2.52*
Final dividend	**-**	-	*6.48*
	2.77	2.52	*9.00*

The interim dividend for the year to 31 March 2012 of 2.772 pence was approved by the Board on 15 November 2011 and has not been included as a liability as at 30 September 2011. The interim dividend will be paid on 10 April 2012 to shareholders on the register at the close of business on 9 March 2012.

9 POST BALANCE SHEET EVENTS

On 20 October 2011 the Group disposed of a product line for a consideration of £8.1m. The product line was part of the Industrial Products segment. The profit on disposal is expected to be approximately £7m.

On 3 November the Group acquired 100% of the capital of Platinum Medical Imaging LLC for an initial cash consideration of $18m with a deferred element of up to $37m payable over three years dependent on its performance over that period. Platinum Medical Imaging LLC is an established US company providing high quality parts and services for MRI and CT medical imaging instruments in US markets. It is based in Florida and California. Some of the disclosure required by IFRS3 has been omitted since due to the timing of the acquisition the initial accounting is incomplete at the date of this publication.

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
15 November 2011

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 page 13 of its 2011 Annual Report and Accounts (a copy of which is available at 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. These include technical risks associated with developing advanced technologies, foreign exchange and commodity risks, risks in relation to the availability of and integration of acquisition targets, the risk of supply chain failures through outsourcing and the risk of fluctuations in the reported pension deficit due to changes in actuarial assumptions. 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.

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.

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 2011 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 2011 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
One Snowhill, Snow Hill Queensway
Birmingham, B4 6GH
15 November 2011

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