Oxford Instruments plc

Half Year Report September 2013

Empowering the future of science and technology

OXFORD INSTRUMENTS

The Business of Science®

Half Year Statement

Introduction

This statement addresses Oxford Instruments' financial and operational performance for the half year to 30 September 2013. It also includes commentary on the planned strategic direction for the Oxford Instruments Group, beyond the end of the current mid-term plan which is due to be completed at the end of this financial year, in March 2014.

Half Year Overview

The Group saw a marked improvement in trading conditions as the first half of the year progressed. As previously reported, the year started with slow trading during April and May, followed by a better performance in June. This strengthening in demand has continued with a sustained recovery during the second quarter of our financial year. Second quarter revenue was above the same period in the prior year, offsetting the fall seen in the first quarter. Orders reflected a similar pattern. The Group saw an increase in orders year-on-year during quarter two, offsetting the decline seen during the first quarter. The book to bill ratio improved with total orders for the first half year steady at £168.0 million (2012: £169.8 million).

Total revenue in the first half was £166.3 million (2012: £170.8 million). Excluding the effects of the ITER wire and Austin Scientific GTAT contracts which were largely completed in the prior year, we saw underlying growth. As a result of the reduced revenues, adjusted operating profit fell £1.6 million to £22.0 million giving an adjusted operating margin of 13.2% (2012: 13.8%). Operating margins improved in the Industrial Products and Service sectors but fell in Nanotechnology Tools due to reduced revenues into the High Brightness LED market and the addition of lower margins from the Asylum Research acquisition. We believe that the HBLED market will recover in the next 12 months and margins in Asylum Research will improve as sales volumes grow.

At the time of our AGM Statement in September our order rate was ahead of the previous year in Asia and Europe but behind in North America. At the end of the half year, run rates are still ahead in Asia and Europe and much improved in North America.

We continue to invest in our customer focused R&D programme with sustained momentum in new product introductions. Our strong brand and technological leadership underpinned our success in maintaining pricing and continued to strengthen our competitive position. We acted quickly to address the softness in the first quarter by focusing on operational cost control while protecting R&D programmes.

As announced today, we are in discussions with the Board of Andor Technology plc (Andor) in relation to an offer to acquire Andor for 500 pence per share in cash (c. £166 million) funded from debt and current cash. This is covered in more detail in the strategy section below.

We also announce today the acquisition of RMG Technology (RMG), completed on 8 November 2013. RMG is a small UK business, formed in 2000, which brings a unique laser technology to our Industrial Analysis business. This is covered in the Industrial Products review below. This acquisition will not have a material impact on performance in the current year.

For the half year just ended, the Directors are proposing an interim dividend of 3.36 pence per share (2012: 3.05 pence), a 10.2% increase payable on 7 April 2014 to shareholders who are on the register on 7 March 2014.

Strategy

In June 2011, we defined a medium term strategic objective for the Group in which we sought to achieve a revenue compound annual growth rate of 14% per year and a net return on sales of 14% by the end of the 2014 financial year. This is known as the *14 Cubed* Plan.

The strong performance of the Group over the first two years of the plan, driven by our technological advantage and exposure to growing markets and geographies, meant that we hit the 14% return on sales target a year early in March 2013. The revenue growth rate in the first two years averaged 15.6%, in excess of the 14% required. In the first half of the current year, growth was a compound 13.7% over the same period in 2011, our base year.

With this strong foundation in place, now is the time to look forward to the next stage of the Group's strategic evolution. We believe the current trend towards convergence of the sciences provides a unique opportunity for Oxford Instruments to access a new set of customers who want to work at the atomic and molecular level. Areas like genomics and DNA modelling hold enormous potential for researchers worldwide. The mechanisms of protein folding and enzyme replication, for example, are amenable to research using tools at the nano scale. Initially, our technological focus will be on analysis, observing biological mechanisms in their natural state. Whilst many of our existing analytical techniques can be used in life sciences, there is a difference. Biological samples are often best studied in their natural, liquid environments, rather than in vacuum environments, as is generally the case in the analysis of inorganic samples. We call the analysis and manipulation of organic molecules the Nano-Bio arena.

We intend to build on our world renowned reputation in the physical sciences with a complementary capability using related techniques to become a leading provider of tools in the Nano-Bio area. The acquisition of Asylum Research in 2012 gave us the capability to produce atomic force microscopes that are used in both the physical and life sciences markets.

We are looking at acquisitions that share routes to market with Oxford Instruments and offer opportunities for growth in the Nano-Bio market. As announced this morning, one avenue we are exploring is through the potential acquisition of Andor, a UK based high-technology company specialising in the manufacture of high-end scientific cameras, microscope systems and analytical software for the material and life science industries. Andor's technology would extend our capability into the optical domain, which is the primary technology used for analysing biological samples at the nano scale.

Nanotechnology applied to both life sciences and elsewhere will continue to offer long term structural growth. Our strategy will continue to focus on delivering organic growth derived from our existing nanotechnology capabilities in materials science, augmented with a new range of techniques in the Nano-Bio field. We are committed to driving further margin improvement by building on our market leading position and continuing to focus on efficiency and operational excellence. We will continue our investment in research and product development with a particular emphasis on the rapidly growing emerging markets. We will also continue to target acquisitions that further strengthen our position in our chosen markets.

Half Year Operational Review

Nanotechnology Tools Sector

	2013 £m	2012 £m
Revenue	**77.1**	80.9
Operating profit	**7.4**	10.3

The Nanotechnology Tools sector produces our highest technology products. It serves research and industrial customers in both the public and private sectors and represents 46% of Group revenue. The sector comprises three businesses: NanoAnalysis, which includes Omniprobe and Asylum Research, Plasma Technology and Omicron NanoScience.

Overall revenue fell by 4% in the half. However, in line with the overall Group trend, performance in the second quarter was much improved with growth of 10% over the same period last year. Operating margins reduced from 12.7% to 9.6% primarily as a result of the decline in the HBLED market noted above and the inclusion of the Asylum Research acquisition. This is performing exactly on plan and we should see increasing margins from this business in future.

Our NanoAnalysis business produces leading-edge tools that enable materials characterisation and sample manipulation at the nanometre scale. Its products include detectors used on electron microscopes and ion-beam systems in academic institutions and industrial applications including semiconductors, renewable energy, mining, metallurgy and forensics. Sales of our new material characterisation system, comprising our latest generation nanoanalysis detector hardware and multi-tasking AZtec® software, have been strong. A new software product was introduced for the characterisation and analysis of photovoltaic cells. AZtec LayerProbe™ is used by customers in the energy market to determine the correct thickness of solar cells to obtain maximum efficiency and reduce costs at the same time. Asylum Research, acquired in December 2012, gives us entry to the Nano-Bio market. It continues to contribute to the growth of the business through access to new microscopy technologies that operate in ambient conditions independently from electron microscopes. Successful marketing of its atomic force microscopes in Asia has resulted in improved orders from demanding markets such as Japan.

Our Plasma Technology business produces equipment for nanofabrication. This business has seen a general slowdown in its markets primarily due to softness in the HBLED sector. However, we maintain a strong technological position in this market and we are well placed to benefit when demand picks up, underpinned by our pipeline of innovative new products. Increased interest in two dimensional materials such as graphene, molybdenum disulphide and boron nitride is driving increased interest in our plasma technology solutions and has led us to develop a centre of excellence to exploit worldwide investment in this nascent area.

Our Omicron NanoScience business is the market and technology leader for analytical measurement techniques in high vacuum, low temperature and high magnetic fields, supplying the fundamental and applied research communities. Its technologies are used in a broad range of application-specific solutions in advanced materials, advanced computing, sustainable energy, life science and security. This business is made up of the former NanoScience and Omicron Nanotechnology businesses. We have experienced difficult trading conditions in some markets with sequestration in the USA having had a significant effect. Demand has shown some tentative recovery in the last two months. Sales of the next generation dilution refrigerator for quantum processing applications, TritonULT, have grown 50% year on year in the first half. Deliveries began of our largest ever nanofabrication system to Jülich University in Germany. This multi-technique system includes an Atomic Layer Deposition system from Plasma Technology, a cross business collaboration model we are developing within the Nanotechnology Tools sector.

Industrial Products Sector

	2013 £m	2012 £m
Revenue	**58.0**	61.5
Operating profit	**8.1**	7.5

Our Industrial Products sector supplies analytical systems for quality control, environmental and compliance testing and components for industry and research. It represents 35% of Group revenue. The businesses which make up this sector are grouped into Industrial Analysis and Industrial Components. 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.

Revenue in the first half was 6% down on the prior year. Excluding the two major contracts discussed above, revenue grew by 5%. Operating profits grew by 8% and operating margins increased to 14.0% (2012: 12.2%) due to a better product mix and good cost control.

Our Industrial Analysis business supplies high quality instruments for materials identification, quality assurance, elemental analysis, thickness gauging and quality control applications. Our customers span global industries including metals, steel, recycling, agriculture, automotive, textiles, petrochemicals and construction. The decline in steel markets that we saw last year has reversed, particularly in China, and sales of our portable and hand-held analysers have been strong. We have launched the world's first portable optical emission spectrometer. PMI-MASTER Smart enables the analysis of metals in inaccessible environments such as high platforms and towers in chemical and oil plants. A new magnetic resonance analyser Pulsar™ was introduced earlier this year for rapid, low cost analysis of the fatty acid composition of food samples. In an exclusive collaboration with the UK Institute of Food Research, we have developed improved methods of testing meat in the food chain and are able to differentiate between beef, lamb, pork and horsemeat, providing new tools to tackle the problems of food fraud and contamination.

The acquisition of RMG Technology, which we have announced today, will strengthen our ability to offer customers in the recycling industry an unprecedented choice of analytical techniques, tailored to their specific requirements. RMG's innovative Laser Induced Breakdown Spectrography (LIBS) will provide differentiation in a growing sector and is complementary to our existing X-ray Fluorescence and Optical Emission technologies, allowing us to expand and develop our share of the world recycling market in the medium term.

In Industrial Components, increasing demand for next generation, higher magnetic field MRI scanners continues to drive growth in our Superconducting Wire business. We have installed new capital equipment which will improve the efficiency of our wire production facility. Our Austin Scientific business has won an order from a major semiconductor equipment manufacturer, mitigating the impact of challenging US market conditions. Both our Superconducting Wire and Austin businesses have faced tough comparators with last year following the successful completion of major contracts, as previously reported. Our X-Ray Technology business has performed well, particularly in sales to China.

Service Sector

	2013 **£m**	2012 £m
Revenue	**32.3**	29.3
Operating profit	**6.5**	5.8

Our Service business comprises our service, support, training, refurbishment, consumables and accessories elements of our business and represents 19% of Group revenue. It consists of the refurbishment, servicing and sale of CT and MRI medical scanners in North America and Asia, and the service elements of the Nanotechnology Tools and Industrial Products sectors.

Revenue grew by 10% and profits by 12%. Operating profit margins remained strong at 20.1% (2012: 19.8%).

The aftermarket revenues associated with our two manufacturing sectors are split into three main revenue streams: service contracts (customers purchase unlimited support for a fixed period); billable service (customers are billed for time and materials); and the sale of spare parts and consumables. Service orders and sales were ahead of last year across all revenue streams, particularly for service contracts and spares. We continue to invest in the development of our service capability internationally, especially in emerging and fast growing markets.

The CT and MR Service business continues to win long term service contracts helped by new opportunities in the US veterinary market.

Financial Review

Comparative figures have been restated as required by IAS 19 (revised). Details of this restatement can be found in note 1 to the accounts.

After a slow start in the first two months of the year, order intake picked up and ended the half year at £168.0 million (2012: £169.8 million) with the order book for future deliveries standing at £123.0 million.

Revenue in the half year fell by 2.6% to £166.3 million. Acquisitions contributed £7.3 million in the period. Foreign currency exchange rate movements increased sales by £1.8 million resulting in a constant currency organic decline in revenue of 8.0%.

Improved mix, favourable foreign exchange rates and acquisitions helped raise the adjusted gross margin from 44.6% to 45.0%. In response to the downturn in revenue there was an increased focus on costs. As a result, constant currency operating expenses, excluding acquisitions, fell by £5.2 million.

Adjusted operating profit reduced by £1.6 million to £22.0 million, giving an adjusted operating profit margin of 13.2% (2012: 13.8%). Net bank interest reduced by £0.1 million to a charge of £0.2 million. Net interest on the pension fund increased £0.4 million to £1.2 million due to the increased pension deficit at the end of March 2013. As a result, adjusted profit before tax fell £1.9 million to £20.6 million.

The ability to utilise brought forward tax losses in the UK has kept the adjusted tax rate relatively low at 21% (2012: 18%) which leads to adjusted basic earnings per share (EPS) of 28.6 pence (2012: 33.0 pence). Reported EPS was 23.2 pence (2012: 20.0 pence). The difference is due to the items detailed in note 2, primarily mark to market movements of derivative financial instruments, acquisition costs, amortisation of acquired intangible assets and the utilisation of a large deferred tax asset the recognition of which was excluded from adjusted earnings in 2011.

Adjusted earnings before interest, tax, depreciation and amortisation (EBITDA) in the period were £26.1 million (2012: £28.0 million). As expected working capital expanded in the period but remains controlled at 11% of the previous 12 months' sales. Capital expenditure reduced to £2.4 million from £4.2 million. The prior year had been abnormally high due to investment in our superconducting wire facility.

At the half year end, net cash was £32.2 million (2012: £37.1 million). Cash outflow in the period was £7.0 million (2012: £2.0 million inflow). 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. In March 2013, the Group agreed a £25 million 7 year fixed interest facility with the European Investment Bank. This facility was drawn down in August 2013.

As calculated under IAS19, the defined benefit pension deficit has reduced by £5.3 million to £42.6 million since 31 March 2013. Since then assets have fallen by 2.7% to £192.6 million while liabilities have reduced by 4.4% to £235.2 million due mainly to the increase in corporate bond yields used to discount liabilities.

Dividends
In 2011 the Group moved to a progressive dividend policy, whereby we would seek to raise dividends as adjusted earnings per share increase, although not necessarily by the same proportion, depending on the Directors' perceived need for cash to expand the business both organically and through acquisition. For the half year just ended, the Directors are proposing an interim dividend of 3.36 pence per share (2012: 3.05 pence), payable on 7 April 2014 to shareholders who are on the register on 7 March 2014.

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

People
Our business relies on the expertise and commitment of our people. When the market slowed during the first quarter of the year we relied more than ever on the continued dedication of our staff, operating to the highest standards of professionalism and skill. I would like to thank them for their valuable contribution during the half year.

Outlook

Following the weaker trading conditions seen in the first two months of the year, the remainder of the period has shown a significant strengthening in both orders and revenues. This improvement in trading, supported by the strength of new product introductions and our actions to enhance operating efficiencies, should enable us to deliver an improved performance in the second half. Looking forward, the application of both our existing and new techniques to the Nano-Bio field offers us the opportunity for further sustained profitable growth.

Jonathan Flint
Chief Executive
12 November 2013

Condensed Consolidated Statement of Income

Half year ended 30 September 2013 – unaudited

	Notes	Half Year to 30 Sept 2013 Before adjusting items** £m	Half Year to 30 Sept 2013 Adjusting items** £m	Half Year to 30 Sept 2013 Total £m	Half Year to 30 Sept 2012 As restated* Before adjusting items** £m	Half Year to 30 Sept 2012 As restated* Adjusting items** £m	Half Year to 30 Sept 2012 As restated* Total £m
Revenue	3	**166.3**	**-**	**166.3**	170.8	-	170.8
Cost of sales		**(91.4)**	**-**	**(91.4)**	(94.6)	(0.2)	(94.8)
Gross profit		**74.9**	**-**	**74.9**	76.2	(0.2)	76.0
Research and development	4	**(12.0)**	**-**	**(12.0)**	(12.1)	-	(12.1)
Selling and marketing		**(26.9)**	**-**	**(26.9)**	(25.1)	-	(25.1)
Administration and shared services		**(14.2)**	**(5.9)**	**(20.1)**	(16.5)	(6.0)	(22.5)
Foreign exchange gain		**0.2**	**-**	**0.2**	1.1	-	1.1
Operating profit		**22.0**	**(5.9)**	**16.1**	23.6	(6.2)	17.4
Other financial income		**0.2**	**3.5**	**3.7**	0.2	-	0.2
Financial income		**0.2**	**3.5**	**3.7**	0.2	-	0.2
Interest charge on net defined benefit pension liabilities		**(1.2)**	**-**	**(1.2)**	(0.8)	-	(0.8)
Other financial expenditure		**(0.4)**	**(0.5)**	**(0.9)**	(0.5)	-	(0.5)
Financial expenditure		**(1.6)**	**(0.5)**	**(2.1)**	(1.3)	-	(1.3)
Profit before income tax	3	**20.6**	**(2.9)**	**17.7**	22.5	(6.2)	16.3
Income tax (expense)/credit	6	**(4.4)**	**(0.1)**	**(4.5)**	(4.0)	(1.1)	(5.1)
Profit for the period attributable to equity shareholders of the parent		**16.2**	**(3.0)**	**13.2**	18.5	(7.3)	11.2
		pence		**pence**	pence		pence
Earnings per share							
Basic earnings per share	7	**28.6**		**23.2**	33.0		20.0
Diluted earnings per share	7	**28.3**		**23.1**	32.5		19.7
Dividends per share							
Dividends paid	8			**3.05**			2.77
Dividends proposed	8			**3.36**			3.05

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

Half year ended 30 September 2013 – unaudited

	Notes	*Year to 31 March 2013 As restated**		
		*Before adjusting items*** *£m*	*Adjusting items*** *£m*	*Total* *£m*
Revenue	3	*350.8*	-	*350.8*
Cost of sales		*(194.0)*	*(0.5)*	*(194.5)*
Gross profit		*156.8*	*(0.5)*	*156.3*
Research and development	4	*(24.3)*	-	*(24.3)*
Selling and marketing		*(51.1)*	-	*(51.1)*
Administration and shared services		*(35.3)*	*(15.9)*	*(51.2)*
Foreign exchange gain		*3.2*	-	*3.2*
Operating profit		*49.3*	*(16.4)*	*32.9*
Other financial income		*0.3*	-	*0.3*
Financial income		*0.3*	-	*0.3*
Interest charge on net defined benefit pension liabilities		*(1.7)*	-	*(1.7)*
Other financial expenditure		*(0.9)*	*(2.2)*	*(3.1)*
Financial expenditure		*(2.6)*	*(2.2)*	*(4.8)*
Profit before income tax		*47.0*	*(18.6)*	*28.4*
Income tax (expense)/credit	6	*(9.7)*	*2.3*	*(7.4)*
Profit for the period attributable to equity shareholders of the parent		*37.3*	*(16.3)*	*21.0*

	Notes			
		pence		*pence*
Earnings per share				
Basic earnings per share	7	*66.5*		*37.4*
Diluted earnings per share	7	*65.7*		*37.0*
Dividends per share				
Dividends paid	8			*10.0*
Dividends proposed	8			*11.2*

* See note 1 of this Half Year Report for details of restatement of comparative information
**Adjusted 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 – Half year ended 30 September 2013 - unaudited

	Half year to 30 Sept 2013 £m	Half year to 30 Sept 2012 As restated* £m	*Year to 31 March 2013 As restated* £m*
Profit for the period	**13.2**	11.2	*21.0*
Other comprehensive (expense)/income:			
Items that may be reclassified subsequently to profit or loss			
Foreign exchange translation differences	**(5.5)**	(2.6)	*3.4*
Gain on effective portion of changes in fair value of cash flow hedges, net of amounts recycled	**0.1**	-	-
Tax on items that may be reclassified to profit or loss	**-**	-	-
Items that will not be reclassified subsequently to profit or loss			
Remeasurement gain/(loss) in respect of post retirement benefits	**3.6**	(7.1)	*(15.7)*
Tax on items that will not be reclassified to profit or loss	**(2.2)**	1.5	*3.5*
Total other comprehensive expense	**(4.0)**	(8.2)	*(8.8)*
Total comprehensive income for the period attributable to equity shareholders of the parent	**9.2**	3.0	*12.2*

* See note 1 of this Half Year Report for details of restatement of comparative information

Condensed Consolidated Statement of Changes in Equity half year ended 30 September 2013 – 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 2013	**2.8**	**60.6**	**0.1**	**4.0**	**70.2**	**137.7**
Total comprehensive income/(expense) attributable to equity shareholders of the parent						
- Profit for the period	**-**	**-**	**-**	**-**	**13.2**	**13.2**
- Other comprehensive income	**-**	**-**	**0.1**	**(5.5)**	**1.4**	**(4.0)**
	-	**-**	**0.1**	**(5.5)**	**14.6**	**9.2**
Transactions recorded directly in equity:						
- Credit in respect of employee service costs settled by award of share options	**-**	**-**	**-**	**-**	**0.8**	**0.8**
- Tax charge in respect of share options	**-**	**-**	**-**	**-**	**(0.7)**	**(0.7)**
- Proceeds from shares issued	**-**	**0.1**	**-**	**-**	**-**	**0.1**
- Dividends paid and accrued	**-**	**-**	**-**	**-**	**(6.4)**	**(6.4)**
Total contributions by and distributions to equity shareholders	**-**	**0.1**	**-**	**-**	**(6.3)**	**(6.2)**
Balance at 30 September 2013	**2.8**	**60.7**	**0.2**	**(1.5)**	**78.5**	**140.7**

	Share capital £m	Share Premium Account £m	Other reserves £m	Foreign exchange translation reserve £m	Retained earnings as restated* £m	Total £m
Balance at 1 April 2012	2.8	60.2	0.1	0.6	63.4	127.1
Total comprehensive income/(expense) attributable to equity shareholders of the parent						
- Profit for the period	-	-	-	-	11.2	11.2
- Other comprehensive income	-	-	-	(2.6)	(5.6)	(8.2)
	-	-	-	(2.6)	5.6	3.0
Transactions recorded directly in equity:						
- 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)
Total contributions by and distributions to equity shareholders	-	0.1	-	-	(3.7)	(3.6)
Balance at 30 September 2012	2.8	60.3	0.1	(2.0)	65.3	126.5

* See note 1 of this Half Year Report for details of restatement of comparative information

Condensed Consolidated Statement of Changes in Equity half year ended 30 September 2013 – unaudited *continued*

	Share capital £m	*Share Premium Account £m*	*Other reserves £m*	*Foreign exchange translation reserve £m*	*Retained earnings as restated* £m*	*Total £m*
Balance at 1 April 2012	2.8	60.2	0.1	0.6	63.4	127.1
Total comprehensive income/(expense) attributable to equity shareholders of the parent						
- Profit for the period	-	-	-	-	21.0	21.0
- Other comprehensive income	-	-	-	3.4	(12.2)	(8.8)
	-	-	-	3.4	8.8	12.2
Transactions recorded directly in equity:						
- Credit in respect of employee service costs settled by award of share options					1.4	1.4
- Tax credit in respect of share options	-	-	-	-	2.2	2.2
- Proceeds from shares issued	-	0.4	-	-	-	0.4
- Dividends paid	-	-	-	-	(5.6)	(5.6)
Total contributions by and distributions to equity shareholders	-	0.4	-	-	(2.0)	(1.6)
Balance at 31 March 2013	2.8	60.6	0.1	4.0	70.2	137.7

* See note 1 of this Half Year Report for details of restatement of comparative information

Condensed Consolidated Statement of Financial Position as at 30 September 2013 - unaudited

	As at 30 Sept 2013 £m	As at 30 Sept 2012 £m	*As at 31 March 2013 £m*
Assets			
Non-current assets			
Property, plant and equipment	**32.1**	29.9	*32.9*
Intangible assets	**84.1**	70.8	*91.9*
Deferred tax assets	**19.3**	21.0	*25.0*
	135.5	121.7	*149.8*
Current assets			
Inventories	**61.0**	60.9	*58.1*
Trade and other receivables	**70.3**	64.2	*71.8*
Current income tax recoverable	**0.1**	1.0	*0.4*
Derivative financial instruments	**4.2**	2.2	*2.2*
Cash and cash equivalents	**56.9**	37.9	*39.2*
	192.5	166.2	*171.7*
Total assets	**328.0**	287.9	*321.5*

Equity			
Capital and reserves attributable to the Company's equity shareholders			
Share capital	**2.8**	2.8	*2.8*
Share premium	**60.7**	60.3	*60.6*
Other reserves	**0.2**	0.1	*0.1*
Translation reserve	**(1.5)**	(2.0)	*4.0*
Retained earnings	**78.5**	65.3	*70.2*
	140.7	126.5	*137.7*
Liabilities			
Non-current liabilities			
Bank loans	**24.7**	0.7	-
Other payables	**11.4**	3.8	*11.1*
Retirement benefit obligations	**42.6**	40.9	*47.9*
Deferred tax liabilities	**5.1**	7.2	*6.2*
	83.8	52.6	*65.2*
Current liabilities			
Bank loans	**-**	0.1	-
Trade and other payables	**84.3**	91.4	*101.4*
Current income tax payables	**4.4**	3.5	*4.3*
Accrued dividend	**4.6**	4.0	-
Derivative financial instruments	**0.4**	0.4	*2.6*
Provisions	**9.8**	9.4	*10.3*
	103.5	108.8	*118.6*
Total liabilities	**187.3**	161.4	*183.8*
Total liabilities and equity	**328.0**	287.9	*321.5*

Condensed Consolidated Statement of Cash Flows half year ended 30 September 2013 - unaudited

	Half year to 30 Sept 2013 £m	Half year to 30 Sept 2012 as restated* £m	*Year to 31 March 2013 as restated* £m*
Profit for the period	**13.2**	11.2	*21.0*
Adjustments for:			
Income tax expense	**4.5**	5.1	*7.4*
Net financial (income)/expense	**(1.6)**	1.1	*4.5*
Reversal of acquisition related fair value adjustments	**-**	0.2	*0.5*
Acquisition related costs	**0.8**	0.6	*2.1*
Amortisation of acquired intangibles	**5.1**	5.4	*13.8*
Depreciation of property, plant and equipment	**2.3**	2.3	*4.6*
Amortisation and impairment of capitalised development costs	**1.8**	2.1	*3.9*
Adjusted earnings before interest, tax, depreciation and amortisation	**26.1**	28.0	*57.8*
Loss on disposal of plant, property and equipment	**0.2**	-	*0.2*
Cost of equity settled employee share schemes	**0.8**	0.6	*1.4*
Acquisition related costs paid	**(0.1)**	-	*(1.2)*
Cash payments to the pension scheme more than the charge to operating profit	**(2.4)**	(2.2)	*(4.9)*
Operating cash flows before movements in working capital	**24.6**	26.4	*53.3*
(Increase)/decrease in inventories	**(5.0)**	(2.2)	*4.7*
Increase in receivables	**(1.2)**	(4.7)	*(9.4)*
(Decrease)/increase in payables and provisions	**(10.3)**	(4.6)	*2.8*
(Decrease)/increase in customer deposits	**(4.3)**	0.4	*(1.0)*
Cash generated by operations	**3.8**	15.3	*50.4*
Interest paid	**(0.3)**	(0.5)	*(0.5)*
Income taxes paid	**(3.0)**	(5.8)	*(8.4)*
Net cash from operating activities	**0.5**	9.0	*41.5*
Cash flows from investing activities			
Proceeds from sale of product line and subsidiary	**-**	1.0	*1.0*
Interest received	**-**	0.2	*-*
Acquisition of subsidiaries, net of cash acquired	**(0.3)**	(0.2)	*(20.1)*
Acquisition of property, plant and equipment	**(2.4)**	(4.2)	*(8.6)*
Capitalised development expenditure	**(2.4)**	(1.8)	*(4.6)*
Net cash used in investing activities	**(5.1)**	(5.0)	*(32.3)*
Cash flows from financing activities			
Proceeds from issue of share capital	**0.1**	0.1	*0.4*
Increase in borrowings	**24.7**	0.8	*-*
Dividends paid	**(1.7)**	(1.6)	*(5.6)*
Net cash from/(used in) financing activities	**23.1**	(0.7)	*(5.2)*
Net increase in cash and cash equivalents	**18.5**	3.3	*4.0*
Cash and cash equivalents at beginning of the period	**39.2**	35.1	*35.1*
Effect of exchange rate fluctuations on cash held	**(0.8)**	(0.5)	*0.1*
Cash and cash equivalents at end of the period	**56.9**	37.9	*39.2*

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

	Half year to 30 Sept 2013 £m	Half year to 30 Sept 2012 £m	*Year to 31 March 2013 £m*
Increase in cash and cash equivalents	**18.5**	3.3	*4.0*
Effect of foreign exchange rate changes on cash and cash equivalents	**(0.8)**	(0.5)	*0.1*
	17.7	2.8	*4.1*
Cash inflow from increase in debt	**(24.7)**	(0.8)	*-*
Movement in net cash in the period	**(7.0)**	2.0	*4.1*
Net cash at start of the period	**39.2**	35.1	*35.1*
Net cash at the end of the period	**32.2**	37.1	*39.2*

* See note 1 of this Half Year Report for details of restatement of comparative information

Notes on the Half Year Financial Statements
Half year ended 30 September 2013 – unaudited

1 BASIS OF PREPARATION OF ACCOUNTS

Reporting entity

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 2013.

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 2013 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.

Significant Accounting Policies

As required by the Disclosure and Transparency Rules of the Financial Conduct Authority, the condensed set of financial statements has been prepared applying the accounting policies and presentation that were applied in the preparation of the Company's published consolidated financial statements for the year ended 31 March 2013, except as explained below.

Adoption of new and revised standards

The following standards and interpretations are applicable to the Group and have been adopted as they are mandatory for the year ended 31 March 2014.

Amendments to IAS 1 Presentation of Items of Other Comprehensive Income: The amendments require that an entity present separately the items of other comprehensive income that may be reclassified to profit or loss in the future from those that would never be reclassified to profit or loss. The adoption of this standard has had no significant impact.

Amendments to IAS 19 Employee Benefits: The amendments require immediate recognition of actuarial gains and losses in other comprehensive income and eliminate the corridor method. The principal amendment that will affect most entities with a defined benefit plan is the requirement to calculate net interest income or expense using the discount rate used to measure the defined benefit obligation. The new standard requires retrospective application and will impact the Group's Income Statement and Statement of Comprehensive Income as a result of the changes in assessing the return on pension scheme assets. A prior year restatement has been made to reflect these changes, which is explained in further detail below.

IFRS 13 Fair Value Measurement: This is a new standard to replace existing guidance on fair value measurement in different IFRSs with a single definition of fair value, a framework for measuring fair values and disclosures about fair value measurements. This standard applies to assets, liabilities and an entity's own equity instruments that, under other IFRSs, are required or permitted to be measured at fair value or when disclosure of fair value is provided. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, i.e. an exit price. The adoption of this standard has had no significant impact.

Amendments to IFRS 7 Disclosures – Offsetting Financial Assets and Financial Liabilities: The amendment requires specific disclosure for financial assets and financial liabilities within the scope of the common disclosures. The adoption of this standard has had no significant impact.

At present, there are no other new standards, amendments to standards or interpretations mandatory for the first time for the year ending 31 March 2014.

Notes on the Half Year Financial Statements
Half year ended 30 September 2013 – unaudited

1 BASIS OF PREPARATION OF ACCOUNTS *continued*

Restatement

As a result of the amendments to IAS 19 Employee Benefits, the Group has changed its accounting policy with respect to determining the income or expense related to its defined benefit pension scheme. The standard prescribes that an interest expense or income is calculated on the net defined benefit liability by applying the discount rate to the net defined benefit liability. This replaces the interest expense on the defined benefit obligation and the expected return on plan assets. In addition, the revised standard clarifies the treatment for scheme administration expenses. The revised standard requires retrospective application, therefore the table below reflects the adjustments made to the comparative amounts for the period to 30 September 2012 and the year to 31 March 2013.

These comprise the reversal of the interest expense on the defined benefit obligation (30 September 2012: £5.2m, 31 March 2013: £10.4m) and the interest income on pension scheme assets (30 September 2012: £4.8m, 31 March 2013: £9.5m) to be replaced by a net interest expense (30 September 2012: £0.8m, 31 March 2013: £1.7m) and an increase in the scheme administration expenses charged to the consolidated income statement (30 September 2012: £0.2m, 31 March 2013: £0.4m). The associated income tax has been restated accordingly. Actuarial losses recognised in the consolidated statement of comprehensive income (30 September 2012: £7.7m, 31 March 2013: £16.9m) have been restated into a re-measurement loss of (30 September 2012: £7.1m, 31 March 2013: £15.7m) with the associated income tax also restated.

	30 September 2012 £m	**31 March 2013 £m**
Consolidated income statement		
Increase in administrative and shared service expenses	(0.2)	(0.4)
Decrease in finance expense	4.4	8.7
Decrease in finance income	(4.8)	(9.5)
Decrease in income tax expense	0.1	0.2
Decrease in profit for the period	**(0.5)**	**(1.0)**
Decrease in basic and diluted earnings per share	**(0.9p)**	**(1.8p)**
Consolidated statement of comprehensive income		
Other comprehensive income:		
Decrease in re-measurement of defined benefit plans	0.6	1.2
Decrease in income tax on other comprehensive income	(0.1)	(0.2)
Increase in other comprehensive income	**0.5**	**1.0**

The revised standard stipulates that actuarial gains and losses are recognised immediately in the periods in which they occur. The Group already adopted this policy and therefore there are no changes to the consolidated balance sheet and consolidated cash flow statement.

Estimates

The preparation of half year financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing these Half Year Financial Statements, the significant judgements made by management in applying the group's accounting policies and key sources of estimation uncertainty were the same as those that applied to the Consolidated Financial Statements as at and for the year ended 31 March 2013.

Notes on the Half Year Financial Statements (continued)
Half year ended 30 September 2013 – unaudited

1 BASIS OF PREPARATION OF ACCOUNTS *continued*

Going concern

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.

Exchange rates

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

Period end rates	**Half year to 30 Sept 2013**	Half year to 30 Sept 2012	*Year to 31 March 2013*
US Dollar	**1.62**	1.61	*1.52*
Euro	**1.20**	1.26	*1.18*
Yen	**159**	126	*143*

Average translation rates	US Dollar	Euro	Yen
Half year to 30 September 2013			
Quarter 1	1.53	1.18	150
Quarter 2	1.55	1.17	152
Year to 31 March 2013			
Quarter 1	*1.58*	*1.23*	*127*
Quarter 2	*1.59*	*1.26*	*125*
Quarter 3	*1.61*	*1.24*	*132*
Quarter 4	*1.56*	*1.19*	*142*

Notes on the Half Year Financial Statements (continued)
Half year ended 30 September 2013 – unaudited

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 2013 £m	Half year to 30 Sept 2012 as restated* £m	*Year to 31 March 2013 as restated* £m*
Profit before income tax	**17.7**	16.3	*28.4*
Reversal of acquisition related fair value adjustments to inventory	**-**	0.2	*0.5*
Acquisition related costs	**0.8**	0.6	*2.1*
Amortisation and impairment of acquired intangibles	**5.1**	5.4	*13.8*
Unwind of discount in respect of deferred consideration	**0.5**	-	*0.2*
Mark to market (gain)/loss in respect of derivative financial instruments	**(3.5)**	-	*2.0*
Adjusted profit before income tax	**20.6**	22.5	*47.0*
Share of taxation	**(4.4)**	(4.0)	*(9.7)*
Adjusted profit	**16.2**	18.5	*37.3*

* See note 1 of this Half Year Report for details of restatement of comparative information

The reversal of acquisition related fair value adjustments to inventory are excluded from adjusted profit to provide a measure that includes 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 IFRS 3 (revised), falls to be treated as a post-acquisition employment expense.

In common with a number of other companies adjusted profit excludes the non-cash amortisation and impairment of acquired intangible assets and the unwind of discounts in respect of deferred consideration relating to business combinations.

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 2013 deferred tax of £3.3m was reversed. In the current period deferred tax of £1.2m (2012: £3.2m) has reversed and consequently been excluded from the tax attributable to adjusted profit before tax.

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 be more clearly seen.

Notes on the Half Year Financial Statements (continued)
Half year ended 30 September 2013 – unaudited

3 SEGMENT INFORMATION

The Group has six 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; and
- 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 presented in reporting to the Group's Board of Directors.

Half year to 30 September 2013

	Nanotechnology Tools £m	**Industrial Products £m**	**Service £m**	**Total £m**
External revenue	**77.0**	**57.0**	**32.3**	**166.3**
Inter-segment revenue	**0.1**	**1.0**	**-**	
Total segment revenue	**77.1**	**58.0**	**32.3**	
Segment operating profit	**7.4**	**8.1**	**6.5**	**22.0**

Half year to 30 September 2012

	Nanotechnology Tools as restated* £m	Industrial Products as restated* £m	Service as restated* £m	Total as restated* £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	10.3	7.5	5.8	23.6

* See note 1 of this Half Year Report for details of restatement of comparative information

Notes on the Half Year Financial Statements (continued)

Half year ended 30 September 2013 – unaudited

Year to 31 March 2013

	Nanotechnology Tools as restated £m*	*Industrial Products as restated* £m*	*Service as restated* £m*	*Total as restated* £m*
External revenue	*165.8*	*124.5*	*60.5*	*350.8*
Inter-segment revenue	*0.3*	*0.6*	*0.1*	
Total segment revenue	*166.1*	*125.1*	*60.6*	
Segment operating profit	*20.6*	*17.3*	*11.4*	*49.3*

Reconciliation of reportable segment profit

	Half year to 30 Sept 2013 £m	Half year to 30 Sept 2012 as restated* £m	*Year to 31 March 2013 as restated* £m*
Operating profit for reportable segments	**22.0**	23.6	*49.3*
Reversal of acquisition related fair value adjustments to inventory	**-**	(0.2)	*(0.5)*
Acquisition related costs	**(0.8)**	(0.6)	*(2.1)*
Amortisation of acquired intangibles	**(5.1)**	(5.4)	*(13.8)*
Financial income	**3.7**	0.2	*0.3*
Financial expenditure	**(2.1)**	(1.3)	*(4.8)*
Profit before income tax	**17.7**	16.3	*28.4*

* See note 1 of this Half Year Report for details of restatement of comparative information

4 RESEARCH AND DEVELOPMENT

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

	Half year to 30 Sept 2013 £m	Half year to 30 Sept 2012 £m	*Year to 31 March 2013 £m*
Research and development expense charged to the consolidated statement of income	**12.0**	12.1	*24.3*
Less: depreciation of R&D related fixed assets	**(0.3)**	(0.1)	*(0.7)*
Add: amounts capitalised as fixed assets	**0.7**	0.4	*0.8*
Less: amortisation and impairment of R&D costs previously capitalised as intangibles	**(1.8)**	(2.1)	*(3.9)*
Add: amounts capitalised as intangible assets	**2.4**	1.8	*4.6*
Total cash spent on research and development during the period	**13.0**	12.1	*25.1*

Notes on the Half Year Financial Statements (continued)

Half year ended 30 September 2013 – unaudited

5 ACQUISITIONS

Asylum Research Corporation

In the prior year, on 19 December 2012 the Group acquired the trade and certain assets of Asylum Research Corporation for an initial cash consideration of £19.8m. Further contingent consideration of between £2.0m and £31.6m is payable based on post acquisition business performance. At 30 September 2013 £6.5m is provided in the accounts in respect of this contingent consideration being the fair value of the contingent consideration payable. Asylum Research is a leading manufacturer of atomic force and scanning probe microscopes and is headquartered in Santa Barbara, USA with subsidiaries in the UK, Germany and Taiwan.

The book and fair value of the assets and liabilities acquired is given in the table below. Fair value adjustments have been made to better align the accounting policies of the acquired business with the Group accounting policies. The business was acquired for the purpose of integrating into the Nanotechnology Tools segment where it is believed that synergies can be obtained particularly in respect of routes to market.

	Book value £m	**Adjustments £m**	**Fair value £m**
Intangible fixed assets	-	14.4	14.4
Tangible fixed assets	0.4	(0.1)	0.3
Inventories	2.4	(0.3)	2.1
Trade and other receivables	1.7	-	1.7
Trade and other payables	(2.3)	(0.2)	(2.5)
Deferred tax	-	0.3	0.3
Net assets acquired	2.2	14.1	16.3
Goodwill			9.3
Total consideration			25.6
Contingent consideration at acquisition			(5.8)
Net cash outflow relating to the acquisition			19.8

The goodwill arising is tax deductible in full and is considered to represent the value of the acquired workforce and synergistic benefits expected to arise from the acquisition.

6 TAXATION

The total effective tax rate on profits for the half year is 25% (2012: 31%). The weighted average tax rate in respect of adjusted profit before tax (see note 2) for the half year is 21% (2012: 18%).

The Group estimates that its full year weighted average tax rate in respect of adjusted profit before tax will be 21%.

Notes on the Half Year Financial Statements (continued)

Half year ended 30 September 2013 – unaudited

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 2013 Shares million	Half year to 30 Sept 2012 Shares million	*Year to 31 March 2013 Shares million*
Weighted average number of shares outstanding	**56.9**	56.2	*56.4*
Less: weighted average number of shares held by Employee Share Ownership Trust	**(0.2)**	(0.2)	*(0.2)*
Weighted average number of shares used in calculation of earnings per share	**56.7**	56.0	*56.2*

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 2013 Shares million	Half year to 30 Sept 2012 Shares million	*Year to 31 March 2013 Shares million*
Number of ordinary shares per basic earnings per share calculations	**56.7**	56.0	*56.2*
Effect of shares under option	**0.5**	1.0	*0.6*
Number of ordinary shares per diluted earnings per share calculations	**57.2**	57.0	*56.8*

Notes on the Half Year Financial Statements (continued)
Half year ended 30 September 2013 – unaudited

8 DIVIDENDS PER SHARE

The following dividends per share were paid by the Group:

	Half year to 30 Sept 2013 pence	Half year to 30 Sept 2012 pence	*Year to 31 March 2013 pence*
Previous period interim dividend	**3.05**	2.772	*2.772*
Previous period final dividend	**-**	-	*7.228*
	3.05	2.772	*10.000*

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

	Half year to 30 Sept 2013 Pence	Half year to 30 Sept 2012 pence	*Year to 31 March 2013 Pence*
Interim dividend	**3.36**	3.05	*3.05*
Final dividend	**-**	-	*8.15*
	3.36	3.05	*11.20*

The final dividend for the year to 31 March 2013 was approved by shareholders at the Annual General Meeting held on 10 September 2013. Accordingly is it no longer at the discretion of the company and has been included as a liability as at 30 September 2013. It was paid on 24 October 2013.

The interim dividend for the year to 31 March 2013 of 3.36 pence was approved by the Board on 12 November 2013, 10 % higher than the previous year and has not been included as a liability as at 30 September 2013. The interim dividend will be paid on 7 April 2014 to shareholders on the register at the close of business on 7 March 2014.

9 POST BALANCE SHEET EVENTS

On 8 November the Group acquired 100% of the share capital of RMG Technology Ltd for cash consideration of £6m and deferred consideration of up to £4m payable in April 2015. RMG Technology Ltd is a UK business specialising in Laser Induced Breakdown Spectrography. 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.

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 26 and 27 of its 2013 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 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
Technical risk	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.
Outsourcing	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.
Acquisitions	Part of the growth of Oxford Instruments is planned 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.
People	A number of the Group's employees are business critical.	The employee leaves the Group
Economic environment	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.
Pensions	The Group's calculated pension deficit is sensitive to changes in actuarial assumptions.	Movements in the actuarial assumptions may have an appreciable effect on the reported pension deficit.
Foreign exchange volatility	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.
Routes to market	In some instances the Group's products are components of higher level systems and thus the Group does not control its route to market.	The system integrator switches supplier, denying the Group's route to market.

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
12 November 2013

Independent review report 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 2013 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 Conduct Authority ("the UK FCA"). 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 FCA.

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 2013 is not prepared, in all material respects, in accordance with IAS 34 as adopted by the EU and the DTR of the UK FCA.

Simon Haydn-Jones
for and on behalf of KPMG LLP
Chartered Accountants
One Snowhill, Snow Hill Queensway
Birmingham, B4 6GH

12 November 2013

For more information please email: **info.oiplc@oxinst.com**

www.oxford-instruments.com

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