



The **Business** of Science

Oxford Instruments plc Interim Report September 2006

Summary of Interim Results

Half year ended 30 September 2006 – unaudited

	2006 £m	2005 £m As restated
Revenue*	72.1	66.7
Trading profit/(loss)	2.0	(0.2)
Loss before income tax	(0.7)	(0.3)
Net cash	4.5	12.6
Shareholders' equity	42.7	59.0
	2006 pence	2005 pence
Adjusted earnings per share – basic**	2.1	(0.6)
Earnings per share – basic	(2.9)	(0.6)
Earnings per share – diluted	(2.9)	(0.6)
Dividend per share – proposed	2.4	2.4
Employees at half year end	1,373	1,338

* 2005 Revenue has been restated (see note 1).

** Defined as: earnings per share before other operating income, amortisation of acquired intangibles, restructuring and non-recurring costs, and mark to market gains or losses in respect of certain derivatives.

Oxford Instruments specialises in the design and manufacture of high-technology tools and systems for industry and research. Founded over 40 years ago, the Company today employs around 1,400 people worldwide, and has been listed on the London Stock Exchange since 1983.

Innovation has been at the heart of Oxford Instruments since it was founded by Sir Martin Wood and is the driving force behind our growth and success. We have built a sound operational platform from which to launch our key technological capabilities, and our focus is on the commercialisation and support of the innovative products that we offer our customers. It is our intention to build on our existing position as a leader in many of our markets, and to exploit the emerging potential of nanotechnology in the physical and bioscience sectors.

We will continue to generate value for our shareholders and all the other stakeholders in our business through the excellence of our worldwide network of sales and support professionals. Our focus on knowing more, thinking deeper and looking further ensures that a constant stream of leading edge products and systems will continue to drive our business forward.

Introduction

On a like for like basis we had a strong first half, with orders up 28%, revenues up 19% and trading profit improved to £2.0 million compared to a loss of £0.2 million in the same period last year.

This improving result is against a background of great change for our company over the last 18 months. The disposal of the medical business in March 2005 left the way clear for us to concentrate on high growth areas, where our unique technological expertise can be brought to bear to generate real value for our shareholders and customers. The UK based volume magnet business, which underperformed in recent years, was closed as part of a radical restructuring of our superconductivity business in the year ended 31 March 2006. All parts of the business are now on track and operating in growing markets where we can demonstrate significant differentiation.

From this sound platform we can pursue our strategy for growth. As previously announced we have significantly increased our R&D spend, targeting our investment towards the rapid development of innovative products that give immediate performance advantages to customers, in our chosen market sectors. Our "voice of the customer" initiative ensures that all aspects of our product development and marketing are guided by a vigorous interrogation and understanding of customer and market needs.

Following the acquisitions and disposals of 2005, our strategic portfolio has been reviewed. Our two targeted growth areas are Nanotools (tools for industry working at the atomic and molecular level) and Biotools (tools for the emerging life sciences industry). Both these markets are showing compound annual growth rates of greater than 15% and are open to paradigm shifts through the introduction of new technology. Oxford Instruments is well positioned to participate in this growth through the development of valuable and innovative technology.

This strategy is quantified in our Group wide corporate strategic model. This model integrates all the business streams, and provides the benchmark against which the strategic progress of the business is monitored. Using this model, we plan for Oxford Instruments to double its turnover and at the same time improve our return on sales by 10 percentage points over five years. The first six months of that plan have seen significant progress.

Financial Summary

On a like for like basis, order intake in the first half of the year was up 28% at £85.3 million (2005 £66.6 million), revenues increased by 19% to £72.1 million (2005 £60.5 million) while at the end of the half year the orderbook stood at £57.1 million, an increase over the same period last year of 36% on a like for like basis. These comparisons exclude the volume magnet business, which as previously reported, was closed at the end of the last financial year. Including this business, order intake grew 21% from £70.7 million and revenues grew 8% from £66.7 million.

Gross margins improved from 32.5% to 33.6%, despite unfavourable movements in exchange rates and an increase in the average price of copper from \$1.6/lb last year to \$3.5/lb this year. The combined adverse effect of currency and copper price movements is estimated to be approximately £1.1 million compared with the first 6 months of last year.

Total operating expenses increased by £0.3 million to £22.2 million (2005 £21.9 million). A saving of approximately £1.0 million was realised in the half year from the closure of the magnet business. Underlying expenses for the remainder of the business rose by £1.3 million. Of this increase, approximately £0.5 million was in R&D and £0.8 million was in additional selling expenses, supporting the £19 million growth in orders taken in the period.

Trading profit increased by £2.2 million to £2.0 million (2005 £0.2 million loss). Adjusted profit before tax (note 2) was £1.7 million (2005 loss £0.3 million).

Cash generated by operations at £2.3 million was £10.2 million higher than the same period last year. Working capital increased by £1.0 million in the half year compared with an increase of £8.2 million in the prior period. After accounting for capital expenditure, tax, dividends and capitalised R&D, net cash ended the period at £4.5 million, a reduction of £5.3 million over the last six months.

For many years the Group has acted as an intermediary between suppliers and certain of our OEM customers. We have recorded these transactions as purchases from the suppliers and sales to the OEM customers. As a result of updated contractual arrangements with these customers, the Board has decided that it is more appropriate to account for these revenues as agency transactions rather than accounting for them with the Group as principal. Whilst this has no effect on profit, it has reduced revenue, and cost of sales in the six months to 30 September by £7.9 million. The prior period has been restated, an adjustment of £8.6 million.

The Group uses derivative products to hedge its exposure to fluctuations in foreign exchange rates and the price of copper. In common with a number of other companies, we have decided that the additional costs of meeting the extensive documentation requirements of IAS39 to apply hedge accounting cannot be justified. Accordingly the Group will not use hedge accounting for these derivatives. Net gains and losses on marking to market such derivatives at the balance sheet date are disclosed in the income statement in Financial Income (note 6).

As described in the Operational Review below, we have provided for a settlement with a customer over a long running onerous contract. This has resulted in a non-recurring charge of £2.2 million in the first half. If settlement is agreed the associated cash effect would be expected to be £2.0 million.

The Directors have recommended an interim dividend of 2.4 pence, unchanged from the previous year, payable on 10 April 2007.

Operational Review

Oxford Instruments Innovation, our in-house technology incubator, continues to drive the accelerated development of new and innovative products. The Group's R&D programme is running to plan.

Our NanoScience business is targeted at the research community and is now wholly located at our Tubney Woods site where it manufactures bespoke, state of the art products using our expertise in high magnetic fields and cryogenics. This business consists of these activities including high technology, high field NMR magnet products and their associated R&D and engineering.

The NanoScience business has been completely restructured with the appointment of a new managing director and senior management team. The improved commercial culture and new operating practices are already showing benefits. Customer service levels have been improved and the business is performing ahead of internal budgets. Starting from next year, a new range of products based on our cryogenics capability and guided by extensive customer input ("voice of the customer") will be launched into the academic and research market.

While underlying performance is improving, it is disappointing that we have had to provide for the termination of a legacy contract relating to the provision of a Hybrid magnet for the Grenoble High Magnetic Laboratory in France. This contract was signed in 1997 and has encountered significant technological difficulties. At the end of last year we were hopeful that we had found a technical solution and had provided for the implementation costs. However, the customer recently notified us of its decision to exercise its right to terminate the contract, leaving us with no alternative other than to seek a financial settlement. While we believe that we are close to such a settlement, none has yet been agreed so we have provided for a one off charge of £2.2m. More positively, this represents the drawing of a line under the last of the troubled legacy contracts. This clears the way for us to focus resources on growth areas. Our new commercial practices and risk mitigation strategy ensures that contracts of this nature with unacceptably onerous commercial conditions will not be entered into in future.

Order intake at our superconducting wire business in New Jersey (OST) was slightly up on last year. This reflected continuing strong demand for our product from the major wire users. In the half year, extra customers have been added to our client list. The cost of copper (a major material component of superconducting wire) has more than doubled in the half year. This has had an adverse effect on margins and the profitability of the OST business. Negotiations are continuing to pass on some of this increase to our customers. This is expected to mitigate the effect on the second half year.

Our NanoAnalysis business, which provides instrumentation for use with electron microscopes, had a particularly strong half year. Order intake grew by 30% and revenues grew by 20%. Strong customer demand, high levels of customer service and the introduction of new products all helped to boost trading.

We introduced two new detector products, X-act and X-3. Our industrial customers (who, for example, use our equipment to perform defect analysis on railway tracks) benefit from the tenfold speed improvement offered by X-act. Our research customers, looking at developing new nanomaterials, particularly value the threefold increased sensitivity of X-3. Early demand for these new products is strong and should serve to keep our NanoAnalysis products at the forefront of the market. In addition, two new products in the NanoAnalysis sector involving innovative technology are being developed, ready for launch next year.

Last year we combined our industrial analysis businesses into a single organisational entity. This enabled the sales force to focus on the highly competitive industrial market, which contributed to order growth and improved performance. Orders are up 32% on the same period last year and margins have risen. Output levels from our factories in High Wycombe and Finland have reached record levels. Requirements for hand held instrumentation to meet environmental legislation continue to be a driving force behind this growth. Sales of our X-ray tubes have also reached record levels and we have expanded our manufacturing capacity by 50% to cope with demand.

Our Biotoools business has had a good half year. As previously reported, the HyperSense Dynamic Nuclear polarisation product has been launched to positive customer response. HyperSense has the potential to revolutionise many analytical applications including the development of new pharmaceuticals. Following a significant order from GE, our planned order in-take for this year has already been achieved. Work is under way to increase manufacturing capacity for next year. Also in the Biotoools area we produce low resolution bench top NMR instrumentation for use in industrial markets. At the beginning of the year, this market was soft, but in the last few months has recovered. This business is currently running ahead of internal forecasts cumulatively.

First half trading for our Plasma Technology business is significantly stronger than the same period last year. The company provides a range of material fabrication equipment and has seen a considerable increase in orders as a result of greater sales focus and an easing of the difficult market environment experienced last year. Orders for the first half were up by 68% and revenues were up by 11%. Focus on low cost sourcing over the last two years and greater market stability has resulted in an improvement in margins.

In China, six products are currently being manufactured in our Shanghai facility. Transfer of products has proved to be a challenging task, although we are beginning to reap the benefits of the lower cost manufacturing. Revenues in China are up 10% on the equivalent period last year. In Japan we continue to service MRI units through our long term relationship with Siemens and Toshiba. Product sales in Japan are in line with plan.

Our Eynsham manufacturing site (previously the location of the magnet technology business) has now been vacated and is available for sale. We continue to market our property in Abingdon. In Bristol, we plan to vacate the site occupied by our Plasma Technology business, and have obtained planning consent for redevelopment for residential use. Our Plasma Technology business will move into a new purpose built facility in the vicinity. In California, we have moved into larger premises to enable us to increase capacity for our X-ray tube business, where demand is particularly strong. In Boston, we have moved into larger premises, reflecting the higher turnover that we are experiencing in the US. This also allows us to set up a new applications laboratory to serve our life sciences customers on the East Coast.

People

These successes are closely linked to a new commercial culture in our company. Staff have participated in commercial development programmes and our "Innovate" seminars, which encourage creative and market orientated thinking. Supporting the cultural change initiative, six new senior managers have been recruited into the business. These new recruits come from highly market-focused organisations, which will serve to further reinvigorate our market-orientated approach.

I would like to thank all our staff for their contributions in the half year.

Outlook

The growth strategy is showing early signs of success and the foundations have been laid for delivering enhanced and sustainable growth. Actions to accelerate new product development, open up new routes to market and adopt a sharply focused commercial approach are yielding results. This is reflected in improved order levels and revenues, which in turn will yield growth in value for shareholders.

Nigel Keen Chairman
21 November 2006

Half year ended 30 September 2006 – unaudited

	Notes	Half year to 30 Sept 2006 £m	Half year to 30 Sept 2005 £m As restated*	Year to 31 March 2006 £m As restated*
Revenue	3	72.1	66.7	147.4
Cost of sales		(47.9)	(45.0)	(99.3)
Gross profit		24.2	21.7	48.1
Net operating expenses		(22.2)	(21.9)	(43.7)
Trading profit/(loss)	3	2.0	(0.2)	4.4
Other operating income		–	0.1	2.0
Amortisation of acquired intangibles		(0.1)	(0.1)	(0.2)
Restructuring and non-recurring costs	5	(2.4)	–	(6.7)
Operating loss		(0.5)	(0.2)	(0.5)
Financial income	6	4.3	4.1	8.1
Financial expenditure	7	(4.5)	(4.2)	(8.5)
Loss before income tax		(0.7)	(0.3)	(0.9)
Income tax expense	8	(0.7)	–	(2.5)
Loss for the period attributable to equity shareholders of the parent		(1.4)	(0.3)	(3.4)
		pence	pence	pence
Earnings per share – continuing				
Basic earnings per share	9	(2.9)	(0.6)	(7.2)
Diluted earnings per share	9	(2.9)	(0.6)	(7.1)
Dividends per share				
Dividends paid	10	2.4	–	6.0
Dividends proposed	10	2.4	2.4	8.4
		£m	£m	£m
Total dividends				
Dividends paid		1.2	–	2.9
Dividends proposed		1.2	1.2	4.0

* See note 1 for detail of the restatement.

Half year ended 30 September 2006 – unaudited

	Half year to 30 Sept 2006 £m	Half year to 30 Sept 2005 £m	Year to 31 March 2006 £m
Foreign exchange translation differences	(1.1)	0.4	0.9
Cash flow hedges – effective portion	–	(0.3)	(0.3)
Deferred tax on the above	–	0.1	0.1
Actuarial loss in respect of post retirement benefits	–	–	(10.3)
Deferred tax on the above	–	–	3.1
Impairment of carrying value of investment	–	–	(0.2)
Net loss recognised directly in equity	(1.1)	0.2	(6.7)
Loss for the period	(1.4)	(0.3)	(3.4)
Total recognised expense for the year – attributable to equity holders of the parent	(2.5)	(0.1)	(10.1)
Total recognised expense for the year	(2.5)	(0.1)	(10.1)
Effect of adoption of IAS 32 and IAS 39, net of tax on 1 April 2005 – cash flow hedges	–	0.2	0.2
	(2.5)	0.1	(9.9)

Half year ended 30 September 2006 – unaudited

Notes	As at 30 Sept 2006 £m	As at 30 Sept 2005 £m	As at 31 March 2006 £m
Assets			
Non-current assets			
Property, plant and equipment	21.7	23.1	23.4
Intangible assets	16.8	15.8	15.6
Available for sale equity securities	1.0	1.6	1.0
Deferred tax assets	18.9	16.6	19.1
	58.4	57.1	59.1
Current assets			
Inventories	28.6	29.7	27.1
Trade and other receivables	37.7	39.4	45.3
Current income tax recoverable	–	0.3	0.9
Derivative financial instruments	0.2	0.6	0.1
Cash and cash equivalents	5.4	18.7	13.9
Held for sale assets	6.9	5.5	5.0
	78.8	94.2	92.3
Total assets	137.2	151.3	151.4

Equity			
Capital and reserves attributable to the Company's equity holders			
Share capital	2.4	2.4	2.4
Share premium	20.2	20.0	20.2
Other reserves	0.1	0.1	0.1
Translation reserve	(0.2)	0.4	0.9
Retained earnings	20.2	36.1	22.8
13	42.7	59.0	46.4
Liabilities			
Non-current liabilities			
Deferred consideration	0.4	0.8	0.5
Retirement benefit obligations	54.2	44.0	53.4
	54.6	44.8	53.9
Current liabilities			
Borrowings	0.5	2.8	2.9
Bank overdrafts	0.4	3.3	1.2
Trade and other payables	33.5	35.0	38.7
Current income tax liabilities	0.1	1.8	1.9
Derivative financial instruments	0.1	0.3	0.3
Provisions	5.3	4.3	6.1
	39.9	47.5	51.1
Total liabilities	94.5	92.3	105.0
Total liabilities and equity	137.2	151.3	151.4

Half year ended 30 September 2006 – unaudited

	Half year to 30 Sept 2006 £m	Half year to 30 Sept 2005 £m	Year to 31 March 2006 £m
Loss for the period	(1.4)	(0.3)	(3.4)
Adjustments for:			
Income tax expense	0.7	–	2.5
Net financial expense	0.2	0.1	0.4
Restructuring and non-recurring costs	2.4	–	6.7
Amortisation of acquired intangibles	0.1	0.1	0.2
Other operating income	–	(0.1)	(2.0)
Depreciation of property, plant and equipment	1.8	1.8	3.7
Amortisation of research and development	0.5	0.4	1.1
Earnings before interest, tax, depreciation and amortisation	4.3	2.0	9.2
Loss/(profit) on disposal of property, plant and equipment	–	(0.2)	0.3
Cost of equity settled employee share schemes	–	0.2	0.3
Restructuring costs paid	(1.7)	(2.1)	(3.1)
Cash payments to the pension scheme less/(more) than the charge to the income statement	0.7	0.4	(1.2)
Operating cash flows before movements in working capital	3.3	0.3	5.5
Increase in inventories	(1.6)	(5.6)	(6.5)
Decrease in receivables	6.5	7.4	2.0
Decrease in payables	(5.7)	(9.6)	(5.4)
Decrease in provisions	(0.2)	(0.4)	(0.3)
Cash generated by operations	2.3	(7.9)	(4.7)
Interest paid	(0.1)	(0.3)	(0.6)
Income taxes paid	(1.4)	(1.1)	(2.7)
Net cash from operating activities	0.8	(9.3)	(8.0)
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment	–	0.2	–
Proceeds from sale of held for sale assets	–	–	0.6
Proceeds from sale of available for sale equity securities	–	0.1	2.2
Interest received	0.1	0.5	0.9
Acquisition of subsidiaries, net of cash acquired	(0.1)	(3.1)	(3.9)
Acquisition of property, plant and equipment	(2.5)	(1.8)	(4.2)
Capitalised development expenditure	(2.2)	(1.3)	(2.6)
Net cash from investing activities	(4.7)	(5.4)	(7.0)
Cash flows from financing activities			
Proceeds from issue of share capital	–	0.6	0.8
Proceeds from the disposal of own shares	–	0.1	0.1
(Decrease)/increase in short term borrowings	(2.4)	0.7	0.8
Dividends paid	(1.2)	–	(2.9)
Net cash from financing activities	(3.6)	1.4	(1.2)
Net decrease in cash equivalents	(7.5)	(13.3)	(16.2)
Cash and cash equivalents at beginning of the period	12.7	28.6	28.6
Revaluation of cash balances on adoption of IAS 32 and IAS 39	–	(0.1)	(0.1)
Effect of exchange rate fluctuations on cash held	(0.2)	0.2	0.4
Cash and cash equivalents at end of the period	5.0	15.4	12.7

Half year ended 30 September 2006 – unaudited

1 BASIS OF PRESENTATION OF ACCOUNTS

Oxford Instruments plc (the Company) is a company incorporated in England and Wales. The Group financial statements consolidate those of the Company and its subsidiaries (together referred to as the Group).

The comparative figures for the financial year ended 31 March 2006 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 237(2) or (3) of the Companies Act 1985. Except as noted below and in note 2, this interim financial information 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 2006.

The Group has adopted a new accounting policy in respect of a certain revenue stream. The Directors now consider that a more appropriate treatment of this revenue stream is as an agency arrangement. Previously the Group had accounted for the revenue as principal. The change has the effect of reducing both revenue and cost of sales by £7.9m (2005 half year £8.6m, full year £19.8m). There is no change to the balance sheet or equity at any reporting date.

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

	Half year to 30 Sept 2006 Average	30 Sept 2006 Period end	Half year to 30 Sept 2006 Average	30 Sept 2006 Period end	Year to 31 March 2006 Average	31 March 2006 Period end
US Dollar	1.84	1.87	1.82	1.77	1.79	1.73
Euro	1.46	1.47	1.46	1.47	1.46	1.43
Yen	213	221	200	201	202	205

2 RECONCILIATION BETWEEN PROFIT AND ADJUSTED PROFIT

	Half year to 30 Sept 2006 £m	Half year to 30 Sept 2005 £m	Year to 31 March 2006 £m
Loss before tax	(0.7)	(0.3)	(0.9)
Other operating income	–	(0.1)	(2.0)
Amortisation of acquired intangible assets	0.1	0.1	0.2
Restructuring and non-recurring costs (note 5)	2.4	–	6.7
Financial instruments (see below)	(0.1)	–	–
Adjusted profit/(loss) before tax	1.7	(0.3)	4.0

Under IAS 39, derivative financial instruments are recognised initially at fair value – this includes the forward exchange contracts the Group has entered into in order to manage its exposure to foreign exchange rate movements. Subsequent to initial recognition, derivative financial instruments are measured at fair value. In the prior year, the Group hedge accounted for its derivative financial instruments in order to minimise the potential volatility in the income statement. However, IAS 39 requires certain stringent criteria to be met in order to continue to hedge account, which, in the particular circumstances of the Group, are considered by the Board not to bring any significant economic benefit. Accordingly, with effect from 1 April 2006, the Group has ceased to hedge account for all of its existing derivative financial instruments and instead will account for them as trading instruments with the profit or loss on remeasurement to fair value being taken immediately to the income statement. 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.

Half year ended 30 September 2006 – unaudited

3 RESULTS BY BUSINESS

Segment information is presented in the consolidated interim financial statements in respect of the Group's business segments, which are the primary basis of segment reporting. The business segment reporting reflects the Group's management structure.

Segment results include items directly attributable to a segment as well as those which can be allocated on a reasonable basis.

Half year to 30 September 2006

	Analytical £m	Superconductivity £m	Total £m
Revenue	43.3	28.8	72.1
Trading profit/(loss) before costs of OII	3.6	(0.1)	3.5
Costs of OII			(1.5)
Trading profit			2.0
Amortisation of acquired intangibles			(0.1)
Restructuring and non-recurring costs			(2.4)
Operating loss			(0.5)
Net financial expense			(0.2)
Income tax expense			(0.7)
Loss for the period			(1.4)
Net segment assets	36.5	31.0	67.5

Research and Development to enhance and develop existing products is undertaken within both the Analytical and Superconductivity business segments. In addition Oxford Instruments Innovation (OII) carries out initial investigations into new product lines that would not normally be undertaken by the operating businesses. Trading profit is shown both before and after OII costs so as to give a more meaningful indication of the performance of the business segments.

Half year to 30 September 2005 (as restated)

	Analytical £m	Superconductivity £m	Total £m
Revenue	35.1	31.6	66.7
Trading profit/(loss) before costs of OII	2.0	(1.3)	0.7
Costs of OII			(0.9)
Trading loss			(0.2)
Other operating income			0.1
Amortisation of acquired intangibles			(0.1)
Operating loss			(0.2)
Net financial expense			(0.1)
Income tax expense			–
Loss for the period			(0.3)
Net segment assets	34.0	37.8	71.8

Half year ended 30 September 2006 – unaudited

3 RESULTS BY BUSINESS continued**Year to 31 March 2006 (as restated)**

	Analytical £m	Superconductivity £m	Total £m
Revenue	80.7	66.7	147.4
Trading profit before costs of OII	6.1	0.3	6.4
Costs of OII			(2.0)
Trading profit			4.4
Other operating income			2.0
Amortisation of acquired intangibles			(0.2)
Restructuring and non-recurring costs			(6.7)
Operating loss			(0.5)
Net financial expense			(0.4)
Income tax expense			(2.5)
Loss for the period			(3.4)
Net segment assets	33.9	33.7	67.6

4 RESEARCH AND DEVELOPMENT

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

	Half year to 30 Sept 2006 £m	Half year to 30 Sept 2005 £m	Year to 31 March 2006 £m
Total cash spent on research and development during the year	7.3	6.5	13.2
Less: amount capitalised	(2.2)	(1.3)	(2.6)
Add: amortisation of amounts previously capitalised	0.5	0.4	1.1
Research and development charged to income statement	5.6	5.6	11.7

5 RESTRUCTURING AND NON-RECURRING COSTS

Restructuring and non-recurring costs for the half year comprise a £2.2m provision for the settlement of an onerous contract and £0.2m in respect of costs associated with the exit from the held for sale factory which became surplus to requirements following the restructuring of the UK magnet business in 2006 (see below).

Restructuring costs for the year ended 31 March 2006 relate to the restructuring of the UK magnet business and restructuring at Plasma Technology in Yatton, Bristol. The cost comprises stock write-downs of £3.7m, redundancy and similar costs of £1.0m, halted research and development costs of £0.8m, supplier commitments of £0.7m and other costs of £0.5m.

Half year ended 30 September 2006 – unaudited

6 FINANCIAL INCOME

	Half year to 30 Sept 2006 £m	Half year to 30 Sept 2005 £m	Year to 31 March 2006 £m
Bank interest receivable	0.1	0.5	0.9
Expected return on pension scheme assets	4.1	3.6	7.2
Mark to market gain in respect of derivative financial instruments	0.1	–	–
	4.3	4.1	8.1

7 FINANCIAL EXPENDITURE

	Half year to 30 Sept 2006 £m	Half year to 30 Sept 2005 £m	Year to 31 March 2006 £m
Interest payable and similar charges on bank loans and overdrafts	0.1	0.3	0.6
Interest charge on pension scheme liabilities	4.4	3.9	7.9
	4.5	4.2	8.5

8 TAXATION

The Group estimates that its weighted average tax rate for the full year will be 40% (2005 60%) and the tax charge for the period has been calculated using this rate. No tax relief is expected to be obtained in respect of the restructuring and non-recurring costs.

9 EARNINGS PER SHARE**a) Basic**

The calculation of basic earnings per share is based on the 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 2006 £m	Half year to 30 Sept 2005 £m	Year to 31 March 2006 £m
Loss for the period	(1.4)	(0.3)	(3.4)

	Shares million	Shares million	Shares million
Weighted average number of shares outstanding	48.8	48.4	48.6
Less shares held by Employee Share Ownership Trust	(0.8)	(0.9)	(0.9)
Weighted average number of shares used in calculation of earnings per share	48.0	47.5	47.7

Half year ended 30 September 2006 – unaudited

9 EARNINGS PER SHARE continued**b) Diluted**

Diluted earnings per share have been calculated using the same numerator as set out in (a) above and by reference to the following number of shares:

	Half year to 30 Sept 2006 Shares million	Half year to 30 Sept 2005 Shares million	Year to 31 March 2006 Shares million
Number of ordinary shares per basic earnings per share calculations	48.0	47.5	47.7
Effect of shares under option	0.2	0.5	0.5
Number of ordinary shares per diluted earnings per share calculations	48.2	48.0	48.2

c) Adjusted

The earnings per share before other operating income, amortisation of acquired intangibles, restructuring and non-recurring costs, and mark to market gains or losses in respect of certain derivatives are as follows:

	Half year to 30 Sept 2006 pence	Half year to 30 Sept 2005 pence	Year to 31 March 2006 pence
Basic	2.1	(0.6)	3.9
Diluted	2.1	(0.6)	3.8

A reconciliation of the profit for the periods used to calculate basic earnings per share to the adjusted profit used to calculate the adjusted earnings per share shown above is set out below:

	Half year to 30 Sept 2006 £m	Half year to 30 Sept 2005 £m	Year to 31 March 2006 £m
Adjusted profit/(loss) before tax (Note 2)	1.7	(0.3)	4.0
Taxation	(0.7)	–	(2.2)
Adjusted profit/(loss)	1.0	(0.3)	1.8

10 DIVIDENDS PER SHARE

The following dividends per share were paid by the Group:

	Half year to 30 Sept 2006 pence	Half year to 30 Sept 2005 pence	Year to 31 March 2006 pence
Previous period interim dividend	2.4	–	–
Previous period final dividend	–	–	6.0
	2.4	–	6.0

Half year ended 30 September 2006 – unaudited

10 DIVIDENDS PER SHARE continued

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

	Half year to 30 Sept 2006 pence	Half year to 30 Sept 2005 pence	Year to 31 March 2006 pence
Interim dividend	2.4	2.4	2.4
Final dividend	–	–	6.0
	2.4	2.4	8.4

The interim dividend for the year to 31 March 2007 of 2.4 pence was approved by the Board on 21 November 2006 and has not been included as a liability as at 30 September 2006. The interim dividend will be paid on 10 April 2007 to shareholders on the register at the close of business on 9 March 2007.

11 PENSIONS

The Group does not perform actuarial valuations at the half year unless a particularly significant event has occurred during that period. The Group has applied actuarial assumptions at 30 September 2006 consistent with those used at 31 March 2006. Accordingly, no actuarial gain or loss arises in respect of pensions. The actuarial assumptions will be reviewed at 31 March 2007.

12 RECONCILIATION OF CASH AND CASH EQUIVALENTS TO NET CASH

	Half year to 30 Sept 2006 £m	Half year to 30 Sept 2005 £m	Year to 31 March 2006 £m
Decrease in cash and cash equivalents	(7.5)	(13.3)	(16.2)
Effect of foreign exchange rate changes on cash and cash equivalents	(0.2)	0.2	0.4
Revaluation of cash balances on adoption of IAS 32 and IAS 39	–	(0.1)	(0.1)
	(7.7)	(13.2)	(15.9)
Cash outflow from decrease in debt	2.4	–	–
Cash inflow from increase in debt	–	(0.7)	(0.8)
	(5.3)	(13.9)	(16.7)
Movement in net cash in the period	9.8	26.5	26.5
Net cash at start of the period			
Net cash at end of the period	4.5	12.6	9.8
Analysed as:			
Cash and cash equivalents (per Balance Sheet)	5.4	18.7	13.9
Bank overdrafts	(0.4)	(3.3)	(1.2)
Cash and cash equivalents (per Statement of Cash Flows)	5.0	15.4	12.7
Borrowings	(0.5)	(2.8)	(2.9)
Net cash at end of the period	4.5	12.6	9.8

Half year ended 30 September 2006 – unaudited

13 RECONCILIATION OF MOVEMENT IN EQUITY SHAREHOLDERS' FUNDS

	Half year to 30 Sept 2006 £m	Half year to 30 Sept 2005 £m	Year to 31 March 2006 £m
Total recognised expense for the period	(2.5)	(0.1)	<i>(10.1)</i>
Credit in respect of employee service costs settled by award of share options	–	0.2	<i>0.3</i>
Proceeds from shares issued	–	0.6	<i>0.8</i>
Disposal of own shares held	–	0.1	<i>0.1</i>
Dividends paid	(1.2)	–	<i>(2.9)</i>
Opening equity shareholders' funds	46.4	58.0	<i>58.0</i>
Arising on adoption of IAS 32 and IAS 39	–	0.2	<i>0.2</i>
Closing equity shareholders' funds	42.7	59.0	<i>46.4</i>

Introduction

We have been instructed by the company to review the financial information for the six months ended 30 September 2006 which comprises the income statement, balance sheet, statement of recognised income and expense, statement of cash flows and the related notes. We have read the other information contained in the interim report and considered whether it contains any apparent misstatements or material inconsistencies with the financial information.

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 Listing Rules of the Financial Services Authority. 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 interim report, including the financial information contained therein, is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the interim report in accordance with the Listing Rules of the Financial Services Authority which require that the accounting policies and presentation applied to the interim figures should be consistent with those applied in preparing the preceding annual accounts except where any changes, and the reasons for them, are disclosed.

Review work performed

We conducted our review in accordance with guidance contained in Bulletin 1999/4: *Review of interim financial information* issued by the Auditing Practices Board for use in the UK. A review consists principally of making enquiries of group management and applying analytical procedures to the financial information and underlying financial data and, based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit performed in accordance with International Standards on Auditing (UK and Ireland) and therefore provides a lower level of assurance than an audit. Accordingly, we do not express an audit opinion on the financial information.

Review conclusion

On the basis of our review we are not aware of any material modifications that should be made to the financial information as presented for the six months ended 30 September 2006.

KPMG Audit Plc

Chartered Accountants
Registered Auditor

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21 November 2006

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Financial Calendar

Interim results announced	mid November
Interim dividend announced	mid November
Interim dividend paid	early April
Financial year end	end March
Preliminary statement for full year	early June
Final dividend announced	early June
Annual Report circulated	July
Annual General Meeting held	mid September
Final dividend paid	end October

Shareholder Reports

Questions relating to the Group's business or requests for additional copies of the Interim Report or the Annual Report & Accounts 2006, should be addressed to:

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Electronic copies of reports are also available on the Company's website www.oxford-instruments.com

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The Oxford Instruments website enables all stakeholders to access up to date information and contact details across the Company.

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