Carl Zeiss SMT Limited

Directors' report and financial statements

Registered number 3053545

30 September 2005

Contents

Directors' report

The directors present their annual report and the audited financial statements for the year ended 30 September 2005.

Results and dividends

The profit for the year, after taxation, amounted to £1,315,000 *(2004: £1,130,000)*. The directors do not recommend the payment of any dividends *(2004: £nil)*.

Principal activities and business review

The principle activity of the company continues to be the manufacture, sale and service of electron microscopes and related components and assemblies.

Improving operational excellence was the company's focus this year. Profitability increased as a result, despite tough global competition in all major markets.

Future developments

It is expected that the business environment will remain tough with strong competition in all major markets.

Research and development

The company is committed to maintaining its significant research and development activities, which will result in new products and improvements in existing products. Research and development projects currently exist in all product areas.

Directors

The directors who held office during the year were as follows:

Dr D Stenkamp	(Resigned 24 February 2005, reappointed 2 August 2005)
PK Clark	(Resigned 2 August 2005)
Dr S Traeger	(Appointed 24 February 2005)
Dr H Gerlinger	(Appointed 24 February 2005)
S Mueller	(Appointed 24 February 2005)
Dr H Bauer	(Appointed 24 February 2005)

None of the directors who held office at the end of the financial year had any disclosable interest in the shares of the company.

According to the register of directors' interests, no rights to subscribe for shares in the company were granted to any of the directors or their immediate families, or exercised by them, during the financial year.

Directors' report *(continued)*

Political and charitable contributions

The company made no political or charitable contributions during the year *(2004: £nil).*

Auditors

Ernst and Young LLP resigned as auditors on 27 June 2005. KPMG LLP were appointed as auditors on 5 July 2005 to fill the casual vacancy arising.

In accordance with Section 385 of the Companies Act 1985, a resolution for the re-appointment of KPMG LLP as auditors of the company is to be proposed at the forthcoming Annual General Meeting.

By order of the board

Stefan Traeger

Dr S Traeger
Director

511 Coldham's Lane
Cambridge
Cambridgeshire
CB1 3JS

Statement of directors' responsibilities

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and of the profit or loss for that period. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

KPMG LLP
Aquis Court
31 Fishpool Street
St Albans
AL3 4RF
United Kingdom

Report of the independent auditors to the members of Carl Zeiss SMT Limited

We have audited the financial statements on pages 5 to 19.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's 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 and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the directors' report and, as described on page 3, the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board and by our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the company is not disclosed.

Basis of audit opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of the company's affairs as at 30 September 2005 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG LLP

KPMG LLP
Chartered Accountants
Registered Auditor

22 JUNE 2006

Profit and loss account
for the year ended 30 September 2005

	Note	2005 £000	2004 £000
Turnover	2	**14,212**	14,908
Change in work in progress		**361**	(311)
Raw materials and consumables		**(7,115)**	(8,957)
Staff costs		**(2,930)**	(2,685)
Depreciation		**(141)**	(162)
Other operating charges		**(2,445)**	(1,667)
		(12,270)	(13,782)
Operating profit	3	**1,942**	1,126
Income from investments		**-**	392
Interest receivable	6	**20**	66
Interest payable and similar charges	7	**(53)**	(88)
Profit on ordinary activities before taxation	3	**1,909**	1,496
Tax on profit on ordinary activities	8	**(594)**	(366)
Retained profit for the year		**1,315**	1,130

There are no recognised gains or losses other than the profit of £1,315,000 attributable to the shareholders for the year ended 30 September 2005 *(2004: profit £1,130,000).*

All turnover and operating profit are derived from continuing operations in the current and previous periods.

Balance sheet
at 30 September 2005

	Note	2005		2004	
		£000	£000	£000	£000
Fixed assets					
Tangible assets	*9*		**451**		575
Investments	*10*		**8,845**		2,263
			9,296		2,838
Current assets					
Stocks	*11*	**2,233**		2,286	
Debtors (including assets due in greater than one year of £2,282,000 *(2004: £2,195,000)*)	*12*	**4,907**		6,602	
Cash at bank and in hand		**2,896**		2,044	
		10,036		10,932	
Creditors: amounts falling due within one year	*13*	**(8,515)**		(4,028)	
Net current assets			**1,521**		6,904
Total assets less current liabilities			**10,817**		9,742
Creditors: amounts falling due after more than one year	*14*		**(25)**		-
Provisions for liabilities and charges	*15*		**(483)**		(748)
			10,309		8,994
Capital and reserves					
Called up share capital	*17*		**2,700**		2,700
Share premium account	*18*		**1,670**		1,670
Profit and loss account	*18*		**5,939**		4,624
Equity shareholders' funds			**10,309**		8,994

These financial statements were approved by the board of directors on 11 May 06 and were signed on its behalf by:

Stefan Traeger

Dr S Traeger
Director

Notes
(forming part of the financial statements)

1 Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the company's financial statements except as noted below. The company has followed the transitional arrangements of FRS 17 'Retirement benefits' in these financial statements.

Basis of preparation

The financial statements have been prepared in accordance with applicable accounting standards and under the historical cost accounting rules.

The company is exempt by virtue of s248 of the Companies Act 1985 from the requirement to prepare group accounts. These financial statements present information about the company as an individual undertaking and not about its group.

Under FRS 1 the company is exempt from the requirement to prepare a cash flow statement on the grounds that a parent undertaking, Carl Zeiss AG, includes the company in its own published consolidated financial statements.

The consolidated financial statements of Carl Zeiss AG, within which this company is included, can be obtained from the address given in note 22.

As the company is a wholly owned subsidiary of Carl Zeiss AG, the company has taken advantage of the exemption contained in FRS 8 and has therefore not disclosed transactions or balances with entities which form part of the group.

Research and development

Research and development expenditure is expensed as incurred.

Fixed assets and depreciation

Depreciation is provided to write off the cost less the estimated residual value of tangible fixed assets by equal instalments over their estimated useful economic lives as follows:

Leasehold property	-	10 years or the remaining period of the lease if sooner
Plant & equipment	-	3-10 years

The carrying values of tangible fixed assets are reviewed for impairment in periods if events or changes in circumstances indicate the carrying value may not be recoverable.

Stocks

Stocks are stated at the lower of cost and net realisable value. Cost includes all costs incurred in bringing each product to its present location and condition, as follows:

Raw materials, consumables and goods for resale	-	purchase cost on a first-in, first-out basis
Work in progress and finished goods	-	cost of direct materials and labour plus attributable overheads based on a normal level of activity

Net realisable value is based on estimated selling price less any further costs expected to be incurred to completion and disposal. Provision is made for obsolete, slow-moving and defective items where appropriate.

Notes *(continued)*

1 Accounting policies *(continued)*

Taxation

The charge for taxation is based on the profit for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes.

Deferred tax is recognised, without discounting, in respect of all timing differences between the treatment of certain items for taxation and accounting purposes which have arisen but not reversed by the balance sheet date, except as otherwise required by Financial Reporting Standard 19.

Foreign currencies

Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated using the contracted rate or the rate of exchange ruling at the balance sheet date and the gains or losses on translation are included in the profit and loss account.

Leases

Rentals payable under operating leases are charged in the profit and loss account on a straight line basis over the lease term.

Post-retirement benefits

The company operates a defined contribution pension scheme. The assets of the scheme are held separately from those of the company in an independently administered fund. The amount charged to the profit and loss account represents the contributions payable to the scheme in respect of the accounting period.

The company also operates a pension scheme providing benefits based on final pensionable pay. The assets of the scheme are held separately from those of the company. Contributions to the scheme are charged to the profit and loss account so as to spread the cost of pensions over the employees working life with the company.

The company does not provide any other post-retirement benefits.

Installation, warranty and customer training costs

Estimated future costs of installation, warranty and customer training which are anticipated to arise on instrument system sales are charged to the profit and loss account as the revenues on the related instrument system sales are recognised.

Investments

Fixed asset investments are stated at cost less any provision for impairment.

Notes *(continued)*

2 Turnover

Turnover represents amounts receivable for goods and services provided in the normal course of business, net of trade discounts, VAT and sales-related taxes. Sales of goods are recognised as at the date of shipment. Service related sales are recognised when the related work is performed or, in the case of long-term contracts, evenly over the life of such term contracts. All of the company's turnover derives from the company's principal activity.

The company has made use of the exemption, in paragraph 55(5), schedule 4 of the Companies Act 1985, not to disclose the analysis of turnover by geographical market as, in the opinion of the directors, it would be seriously prejudicial to the interests of the company to do so.

3 Profit on ordinary activities before taxation

	2005	2004
	£000	£000
Profit on ordinary activities before taxation is stated after charging / (crediting):		
Auditors' remuneration:		
Audit	**37**	20
Other services - fees paid to the auditor and its associates	**-**	9
Research and development expenditure	**1,413**	1,256
Depreciation of owned fixed assets:	**140**	162
Operating lease rentals – land and buildings	**328**	328
– plant and machinery	**88**	70
Net (profit)/loss on foreign currency translation	**(4)**	56

Notes *(continued)*

4 Remuneration of directors

	2005	2004
	£000	£000
Directors' emoluments	**85**	78

During the year, one director was a member of the company defined benefit pension scheme *(2004: one).*

5 Staff numbers and costs

The average number of persons employed by the company (including directors) during the year, analysed by category, was as follows:

	Number of employees	
	2005	2004
Production	**27**	26
Marketing and selling	**9**	7
Service and spares	**18**	18
Research and development	**21**	20
Administration	**5**	6
	80	77

The aggregate payroll costs of these persons were as follows:

	2005	2004
	£000	£000
Wages and salaries	**2,469**	2,239
Social security costs	**240**	218
Other pension costs	**221**	228
	2,930	2,685

6 Interest receivable

	2005	2004
	£000	£000
Bank interest receivable	**20**	66

Notes *(continued)*

7 Interest payable and similar charges

	2005 £000	2004 £000
Bank interest payable	7	11
Interest on loans from group companies and similar charges	46	77
	53	88

8 Taxation

Tax on profit on ordinary activities

Analysis of charge in period

	2005 £000	2004 £000
UK corporation tax		
Current tax on income for the period	592	527
Adjustments in respect of prior periods	2	(4)
	594	523
Double taxation relief	-	(181)
Total current tax	594	342
Deferred tax	-	24
Tax on profit on ordinary activities	594	366

Notes *(continued)*

8 Taxation *(continued)*

Factors affecting the tax charge for the current period

The current tax charge for the period is higher *(2004: lower)* than the standard rate of corporation tax in the UK (30%, 2004: 30%). The differences are explained below.

	2005	2004
	£000	£000
Current tax reconciliation		
Profit on ordinary activities before tax	**1,909**	1,496
Current tax at 30% (2004: 30%)	**573**	449
Effects of:		
Expenses not deductable for tax purposes	**21**	23
Capital allowances for period in excess of depreciation	**(2)**	(7)
Adjustments to tax charge in respect of previous periods	**2**	(4)
Effect of foreign underlying tax	**-**	(148)
Tax credit	**-**	29
Total current tax charge (see above)	**594**	342

Deferred tax

Deferred taxation asset provided in the financial statements and the amount not provided are as follows:

	2005		2004	
	Provided	**Not provided**	Provided	Not provided
	£000	**£000**	£000	£000
Difference between accumulated depreciation and capital allowances	**25**	**-**	25	-
Capital losses available	**-**	**982**	-	982
Other timing differences	**-**	**-**	-	123
Provision for deferred taxation	**25**	**982**	25	1,105

Notes *(continued)*

9 Tangible fixed assets

	Leasehold property £000	Plant & equipment £000	Total £000
Cost			
At beginning of year	472	611	1,083
Additions	4	12	16
At end of year	476	623	1,099
Depreciation			
At beginning of year	92	416	508
Charge for the year	46	94	140
At end of year	138	510	648
Net book value			
At 30 September 2005	**338**	**113**	**451**
At 1 October 2004	380	195	575

10 Fixed asset investments

	Shares in group companies £000
Cost	
At beginning of year	2,263
Additions	6,582
At end of year	**8,845**

Additions relate to relate to an increase in the company's investment in Carl Zeiss SMT Inc.

The subsidiary undertakings at 30 September 2005 were:

	Shareholding percentage	Holding	Country of registration (or incorporation) and operation
Carl Zeiss SMT Inc	100%	Common stock	USA
Carl Zeiss SMT SARL	100%	Common stock	France

The nature of the business of both subsidiary undertakings was the same as the principal activity of the company.

Under the provision of section 248 of the Companies Act 1985 the company is exempt from preparing consolidated accounts and has not done so, therefore the accounts show information about the company as an individual entity.

Notes *(continued)*

11 Stocks

	2005	2004
	£000	£000
Raw materials & finished goods	**1,303**	1,717
Work in progress	**930**	569
	2,233	2,286

The difference between the purchase price or production costs of stocks and their replacement cost is not material.

12 Debtors

	2005	2004
	£000	£000
Trade debtors	**1,939**	2,375
Amounts owed by group undertakings	**2,282**	4,018
Other debtors	**601**	52
Deferred taxation (note 8)	**25**	25
Prepayments and accrued income	**60**	132
	4,907	6,602

Amounts falling due after more than one year above are:

	2005	2004
	£000	£000
Amounts owed by group undertakings	**2,282**	2,195

Notes *(continued)*

13 Creditors: amounts falling due within one year

	2005	2004
	£000	£000
Payments received on account	**446**	189
Trade creditors	**1,299**	819
Amounts owed to group undertakings	**4,914**	1,655
Corporation tax	**138**	220
Other taxation and social security	**28**	71
Accruals and deferred income	**1,690**	1,074
	8,515	4,028

14 Creditors: amounts falling due after more than one year

	2005	2004
	£000	£000
Other creditors	**25**	-

15 Provisions for liabilities and charges

Warranty provision	£000
At beginning of year	748
Charge to the profit and loss for the year	(25)
Utilised	(240)
At end of year	**483**

Notes *(continued)*

16 Commitments under operating leases

At 30 September 2005 the company had annual commitments under non-cancellable operating leases as set out below:

	2005		2004	
	Land and buildings	**Other**	Land and buildings	Other
	£000	**£000**	£000	£000
Operating leases which expire:				
Within one year	-	**52**	-	32
In the second to fifth years inclusive	-	**36**	-	38
Over five years	**328**	-	328	-
	328	**88**	328	70

17 Called up share capital

	2005	2004
	£000	£000
Authorised		
Equity: 2,700,000 ordinary share of £1 each	**2,700**	2,700
Allotted, called up and fully paid		
Equity: 2,700,000 ordinary shares of £1 each	**2,700**	2,700

18 Reconciliation of shareholders' funds and movement on reserves

	Share capital	**Share premium account**	**Profit and loss account**	**Total share holders funds**
	£000	**£000**	**£000**	**£000**
At 1 October 2004	2,700	1,670	4,624	8,994
Profit for the year	-	-	1,315	1,315
At 30 September 2005	**2,700**	**1,670**	**5,939**	**10,309**

Notes *(continued)*

19 Capital commitments

Amounts contracted for but not provided in the financial statements amounted to £nil *(2004: £43,873)*.

20 Pension scheme

SSAP 24 disclosures

The company operates a defined contribution pension scheme for its employees. The assets of the scheme are held separately from those of the company in an independently administered fund. There are no outstanding or prepaid contributions at the year end *(2004: £nil)*.

The company also operates a pension scheme providing benefits based on final pensionable pay. Contributions are being charged to the profit and loss account so as to spread the cost of pensions over employees' working lives with the company.

The contributions are determined by a qualified actuary on the basis of triennial valuations using the projected unit method. The most recent valuation was at 1 April 2005.

The most recent actuarial valuation showed that the market value of the scheme's assets was £9,699,000 at 30 September 2005 and that the actuarial value of those assets represented 77% of the benefits that had accrued to members, after allowing for expected future increases in earnings. The contributions of the company will remain at 15% of earnings.

The pension charge for the period is £220,000 *(2004:£228,000)*.

There were no unpaid contributions at the year end *(2004: £nil)*.

FRS 17 disclosures

Whilst the company continues to account for pension costs in accordance with Statement of Standard Accounting Practice 24 'Accounting for Pension costs', under FRS 17 'Retirement benefits' the following transitional disclosures are required:

The balance sheet disclosures as at 2005 were based on a full valuation at 1 April 2005 updated where necessary by the actuary on an FRS 17 basis. The balance sheet disclosures as at 2004 were based on a full valuation at 30 September 2004 updated where necessary by the actuary on an FRS 17 basis

The major assumptions used by the actuary in this valuation were:

	2005	2004	2003
Rate of increase in salaries	4.4%	4.5%	4.2%
Rate of increase in pensions in payment and deferred pensions	2.9%	3.0%	2.7%
Discount rate applied to scheme liabilities	5.0%	5.5%	5.3%
Inflation assumption	2.9%	3.0%	2.7%

The assumptions used by the actuary are the best estimates chosen from a range of possible actuarial assumptions which, due to the timescale covered, may not necessarily be borne out in practice.

Notes *(continued)*

21 Pension scheme *(continued)*

Scheme assets and liabilities

The fair value of the scheme's assets, which are not intended to be realised in the short term and may be subject to significant change before they are realised, and the present value of the scheme's liabilities, which are derived from cash flow projections over long periods and thus inherently uncertain, were:

	Value at 2005 £000	Value at 2004 £000	Value at 2003 £000
Equities	8,381	6,824	6,117
Bonds	838	867	1,063
Other	480	383	248
Total market value of assets	9,699	8,074	7,428
Present value of scheme liabilities	(12,628)	(11,284)	(11,152)
Deficit in the scheme – pension liability	(2,929)	(3,210)	(3,724)
Related deferred tax asset	879	963	1,117
Net pension liability	(2,050)	(2,247)	(2,607)

The amount of this net pension liability would have a consequential effect on reserves.

	Long term rate of return 2005	Long term rate of return 2004	Long term rate of return 2003
Equities	7.9%	8.2%	8.1%
Bonds	4.7%	5.2%	5.0%
Other – Property	4.5%	4.8%	4.0%

Analysis of movement in deficit during the year

	2005 £000	2004 £000
Deficit in scheme at beginning of year	**(3,210)**	(3,724)
Current service cost	**(245)**	(277)
Contributions paid	**163**	179
Other finance cost	**(8)**	(45)
Actuarial gain	**371**	657
Deficit in the scheme at end of year	**(2,929)**	(3,210)

Notes *(continued)*

21 Pension scheme *(continued)*

If FRS 17 had been fully adopted in these financial statements the pension costs for defined benefit schemes would have been:

Analysis of amounts included in other finance costs

	2005 £000	2004 £000
Expected return on pension scheme assets	**618**	556
Interest on pension scheme liabilities	**(626)**	(601)
	(8)	(45)

Analysis of amount recognised in statement of total recognised gains and losses

	2005 £000	2004 £000	2003 £000
Actual return less expected return on scheme assets	1,123	117	541
Percentage of year end scheme assets	11.6%	1.4%	7.3%
Experience gains and losses arising on scheme liabilities	231	127	125
Percentage of present value of year end scheme liabilities	1.8%	1.1%	1.1%
Actuarial gain loss recognised in statement of total recognised gains and losses	371	657	(230)
Percentage of present value of year end scheme liabilities	2.9%	5.8%	(2.1%)

22 Ultimate parent company and parent undertaking of larger group of which the company is a member

The company's immediate parent undertaking is Carl Zeiss NTS GmbH, a company incorporated in Germany. The company's ultimate parent undertaking is Carl Zeiss AG which is also incorporated in Germany. Copies of the accounts of Carl Zeiss AG are available from Carl-Zeiss-Strasse 22, 73447 Oberkochen, Germany.