Registered Number 1560324

KLA-Tencor Limited
Annual Report
for the year ended 30 June 2002

KLA-Tencor Limited

Annual report
for the year ended 30 June 2002

Directors' report for the year ended 30 June 2002

The directors present their report and the audited financial statements for the year ended 30 June 2002.

Principal activities

The KLA-Tencor group is a world leader in yield management and process control solutions for the semi-conductor and related industries. The principal activities of the company and the group continues to be that of providing maintenance services to customers of group companies and of providing equipment installation, after sales support and sales promotion services to group companies. In addition the company and the group make a number of resale transactions, including sales of products manufactured by other group companies.

Review of business and future developments

The consolidated profit and loss account for the year is set out on page 4.

The directors consider the results for the year and the year-end position to be satisfactory and expect a similar level of activity for the foreseeable future.

The company has received confirmation from its parent that it will provide full support as is necessary for the company to continue to trade and meet its liabilities as they fall due for at least 12 months from the approval of the financial statements.

Dividends

The directors do not recommend the payment of a dividend for the year (2001: £nil).

Directors and their interests

The directors who held office during the year are given below:

P Clibbon
J Kispert
S J Nichols

Subsequent to the year end, P Clibbon resigned as a director on 7 February 2003 and P Boudre was appointed on 10 February 2003.

None of the directors had any disclosable interest in the shares of the company at 30 June 2002 or at any time during the year ended on that date.

The company is a wholly owned subsidiary of a company incorporated outside Great Britain and, as permitted by statutory instrument, no disclosure is made of any interests of the directors in the shares or share option of that company.

Statement of directors' responsibilities

Company law requires the directors to prepare financial statements for each financial year that give a true and fair view of the state of affairs of the company and the group and of the profit or loss of the group for that period. The directors are required to prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the group will continue in business (see note 1).

The directors confirm that suitable accounting policies have been used and applied consistently with the exception of the changes arising from the adoption of new accounting standards as explained in Note 1 'Accounting policies'. They also confirm that reasonable and prudent judgements and estimates have been made in preparing the financial statements for the year ended 30 June 2002 and that applicable accounting standards have been followed.

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the company and the group and enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Auditors

Following the conversion of our auditors PricewaterhouseCoopers to a Limited Liability Partnership (LLP) from 1 January 2003, PricewaterhouseCoopers resigned on 28 July 2003 and the directors appointed PricewaterhouseCoopers LLP to fill the casual vacancy as auditors. A resolution to reappoint PricewaterhouseCoopers LLP as auditors of the company will be proposed at the annual general meeting.

On behalf of the Board

P Boudre
Director

Independent auditors report to the members of KLA-Tencor Limited

We have audited the financial statements which comprise the consolidated profit and loss account, the statement of group total recognised gains and losses, the balance sheets and the related notes.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the annual report and the financial statements in accordance with applicable United Kingdom law and accounting standards are set out in the statement of directors' responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom auditing standards issued by the Auditing Practices Board. This report, including the opinion, has been prepared for and only for the company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or in to whose hands it may come save where expressly agreed by our prior consent in writing.

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 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 affairs of the company and the group at 30 June 2002 and of the profit of the group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
Reading

1 December 2003

Consolidated profit and loss account for the year ended 30 June 2002

	Note	2002 £	2001 (restated) £
Turnover	2	**15,234,131**	15,079,998
Cost of sales		**(3,860,988)**	(2,338,091)
Gross profit		**11,373,143**	12,741,907
Administrative expenses		**(10,721,997)**	(10,360,722)
Operating profit	3	**651,146**	2,381,185
Interest receivable		**2,308**	6,118
Interest payable	6	**(408,034)**	(279,884)
Profit on ordinary activities before taxation		**245,420**	2,107,419
Tax on profit on ordinary activities	7	**(57,602)**	(677,495)
Retained profit for the financial year	16	**187,818**	1,429,924

The results for the years above are derived entirely from continuing activities.

There is no difference between the profit on ordinary activities before taxation and the retained profit for the years stated above and their historical cost equivalents.

Statement of group total recognised gains and losses

For year ended 30 June	Note	2002 £	2001 (restated) £
Profit for the financial year		**187,818**	1,429,924
Total recognised gains relating to the year		**187,818**	1,429,924
Prior year adjustment	16	**50,656**	
Total gains recognised since last annual report		**238,474**	

Balance sheets as at 30 June 2002

		Group		Company	
		2002	2001 (restated)	**2002**	2001 (restated)
	Note	**£**	£	**£**	£
Fixed Assets					
Tangible assets	9	**1,062,876**	2,032,809	**1,062,876**	2,032,809
Investments	10	**-**	-	**10,000**	10,000
		1,062,876	2,032,809	**1,072,876**	2,042,809
Current assets					
Stock	11	**10,271,806**	4,713,749	**10,271,806**	4,713,749
Debtors	12	**6,082,651**	10,860,917	**8,085,034**	12,173,579
Cash at bank and in hand		**1,433,473**	603,047	**1,408,856**	562,505
		17,787,930	16,177,713	**19,765,696**	17,449,833
Creditors – Amounts falling due within one year	13	**(13,250,993)**	(12,716,527)	**(15,356,595)**	(14,064,822)
Net current assets		**4,536,937**	3,461,186	**4,409,101**	3,385,011
Total assets less current liabilities		**5,599,813**	5,493,995	**5,481,977**	5,427,820
Provisions for liabilities and charges	14	**(900,000)**	(982,000)	**(900,000)**	(982,000)
Net assets		**4,669,813**	4,511,995	**4,581,977**	4,445,820
Capital and reserves					
Called-up share capital	15	**186,500**	186,500	**186,500**	186,500
Profit and loss account	16	**4,513,313**	4,325,495	**4,395,477**	4,259,320
Equity shareholders' funds	17	**4,699,813**	4,511,995	**4,581,977**	4,445,820

The financial statements on pages 4 to 15 were approved by the board of directors on **25 NOV 2003** and were signed on its behalf by:

P Boudre
Director

Notes to the financial statements for the year ended 30 June 2002

1 Accounting policies

These financial statements have been prepared in accordance with applicable accounting standards in the United Kingdom. A summary of the more important group accounting policies, which have been applied consistently, is set out below.

Basis of accounting

The financial statements are prepared in accordance with the historical cost convention. They have also been prepared on a going concern basis, as the company has received confirmation from its parent company that it will provide full support as is necessary for the company to continue to trade and meet its liabilities as they fall due for at least 12 months from the approval of the financial statements.

Basis of consolidation

The consolidated financial statements comprise the financial statements of the company and its subsidiary, KLA Tencor (Service) Limited, both of which are made up to the 30 June 2002.

In the case of acquisitions and disposals of subsidiary undertakings the results are consolidated from the effective date of acquisition or up to the date of disposal. All significant inter-company balances and transactions have been eliminated on consolidation.

Changes in accounting standards

The company has adopted FRS 19 'Deferred taxation' in these financial statements. The adoption of this standard represents a change in accounting policy and the comparative figures have been restated accordingly. See note 16 for further details.

Turnover

Turnover represents the amounts invoiced to other group undertakings for sales promotion, equipment installation and warranty services to customers and amounts invoiced to customers in respect of maintenance work and product sales net of Value Added Tax.

Deferred revenue

Income earned from after-sales of service contract support and maintenance services under warranty is recognised over the period of the warranty obligation or relevant support contract.

Deferred taxation

Provision is made for deferred taxation, using the full provision method, on all material timing differences. Deferred taxation has been recognised as a liability or asset if transactions have occurred at the balance sheet date that give rise to an obligation to pay more taxation in the future or pay less taxation in the future. An asset is not recognised to the extent that the transfer of economic benefits is uncertain.

Tangible fixed assets and depreciation

The cost of tangible fixed assets is their purchase cost, together with any incidental expenses of acquisition.

Tangible fixed assets are stated at cost less accumulated depreciation. Depreciation is calculated so as to write off the cost on a straight-line basis over their estimated economic useful lives. The principal rates used for this purpose are:

Leasehold improvements	Shorter of 10 years or remaining period of lease
Equipment and motor vehicles	3 – 5 years
Furniture, fixtures and fittings	5 years

Investments

Investments in subsidiary undertakings in the financial statements of the company are carried at cost less provision for any diminution in value.

Foreign currencies

Transactions denominated in foreign currencies are translated at exchange rates ruling at the transaction date. Monetary assets and liabilities in foreign currencies are translated at exchange rates ruling at the balance sheet date. Exchange differences are dealt with in the profit and loss account in the period in which they arise.

Stock

Stock is valued at the lower of cost and net realisable value. Provision is made for obsolete, slow moving and defective stock.

Pension costs

Contributions in respect of the group's defined contribution pension schemes are charged to the profit and loss account as incurred.

Operating leases

Costs in respect of operating leases are charged on a straight-line basis over the lease term.

Financial reporting standard 8

FRS 8, 'Related Party Disclosures', requires the disclosure of the details of material transactions between the reporting entity and any related parties. However, transactions between the group and other group companies including their associates and joint ventures have not been disclosed in accordance with the exemption in FRS 8 paragraph 3.

Cash flow

The company has adopted the provisions of FRS 1 (revised) 'Cash flow statements' in these financial statements, and has taken advantage of the exemptions for subsidiary companies contained therein. Accordingly a cash flow statement has not been included in these financial statements.

Other provisions

The company provides against the expected future rentals and service costs to be incurred to the expiry of the final lease for vacant leasehold property, less any expected future expected rental income if the properties are sublet. Expected future cash flows are discounted by an annual rate of 7.5%. Provision is also made against the value of the tangible fixed assets relating to the vacant leasehold properties.

2 Turnover

The geographical analysis of turnover by destination is as follows:

	2002 £	2001 £
United Kingdom	**2,840,148**	2,899,668
Rest of Europe	**1,984,410**	6,107,701
United States of America	**10,409,573**	6,072,629
	15,234,131	15,079,998

3 Operating profit

	2002 £	2001 £
Operating profit is stated after charging/(crediting):		
Wages and salaries (including directors' remuneration)	**3,868,538**	4,799,199
Social security costs	**523,591**	678,277
Pension costs (Note 19)	**233,951**	341,656
Staff costs	**4,626,080**	5,819,132
Auditors' remuneration		
- Audit (company £28,075 (2001: £23,500))	**34,075**	29,500
- Non-audit services	**74,350**	54,929
Depreciation of tangible owned fixed assets	**1,088,167**	1,029,736
(Profit)/loss on disposal of tangible fixed assets	**(10,505)**	2,068
Operating lease charges – plant & machinery	**-**	4,570
- other leases	**537,383**	430,274
Exchange (gain)/loss arising on translation of foreign currencies	**(151,089)**	28,691

4 Employee information

The average monthly number of persons (including executive directors) employed by the group during the year was:

By activity	**2002**	2001
Engineering and servicing	**66**	69
Selling and distribution	**16**	18
Administration	**20**	27
	102	114

5 Directors' emoluments

	2002	2001
	£	£
Aggregate emoluments	**74,462**	81,586
Company pension contributions to money purchase schemes	**5,440**	5,632

Retirement benefits are accruing to 2 (2001: 2) directors under defined contribution pension schemes.

6 Interest payable

	2002	2001
	£	£
Interest payable to group undertakings	**371,173**	252,945
Bank interest payable	**36,861**	26,939
	408,034	279,884

7 Tax on profit on ordinary activities

	2002	2001 (restated)
	£	£
Current tax		
UK corporation tax at 30% (2001: 30%)	**336,138**	669,311
Corporation tax in respect of prior years	**(19,288)**	(25,363)
Total current tax	**316,850**	643,948
Deferred tax		
Origination and reversal of timing differences	**(259,248)**	55,608
Adjustment in respect of prior years	**-**	(22,061)
Total deferred tax	**(259,248)**	33,547
Tax on profit on ordinary activities	**57,602**	677,495

The tax assessed for the year differs to the standard rate of corporation tax in the UK of 30%. The differences are explained below:

	2002	2001
	£	£
Profit on ordinary activities before tax	**245,420**	2,107,419
Profit on ordinary activities multiplied by the standard rate in the UK 30%	**73,626**	632,225
Expenses not deductible for tax purposes	**3,264**	53,679
Accelerated capital allowances	**259,248**	(16,866)
Other timing differences	**-**	273
Adjustments to tax charge in respect of previous period	**(19,288)**	(25,363)
	316,850	643,948

8 Profit for the financial year

As permitted by section 230 of the Companies Act 1985 the parent company's profit and loss account has not been included in these financial statements. The parent company's profit for the financial year was £136,157 (2001: £1,404,510 restated)

9 Tangible fixed assets

Group and Company

	Leasehold improvements £	Equipment and motor vehicles £	Furniture, fixtures and fittings £	Total £
Cost				
At 1 July 2001	1,320,931	2,714,693	566,104	4,601,728
Additions	59,479	244,481	15,287	319,247
Disposals	-	(622,234)	(3,321)	(625,555)
At 30 June 2002	**1,380,410**	**2,336,940**	**578,070**	**4,295,420**
Accumulated depreciation				
At 1 July 2001	464,191	1,696,422	408,306	2,568,919
Charge for the year	344,917	645,663	97,587	1,088,167
Disposals	-	(424,542)	-	(424,542)
At 30 June 2002	**809,108**	**1,917,543**	**505,893**	**3,232,544**
Net book value				
At 30 June 2002	**571,302**	**419,397**	**72,177**	**1,062,876**
At 30 June 2001	856,740	1,018,271	157,798	2,032,809

10 Investments

Company

	£
Cost and net book value at 30 June 2000 and 30 June 2001	**10,000**

Investments represent the Company's interest in its wholly owned subsidiary undertaking, KLA Tencor (Service) Limited, a company registered in England and Wales.

Subsidiary undertaking	Nature of business	% Ordinary Shares and voting rights	Country of registration
KLA-Tencor (Service) Ltd	Servicing of semi-conductor industry equipment	100	United Kingdom

11 Stocks

Group and Company

	2002	2001
	£	£
Raw materials and consumables	**10,271,806**	4,713,749

12 Debtors – Amounts falling due within one year

	Group		Company	
	2002	2001 restated	2002	2001 restated
	£	£	£	£
Trade debtors	**972,072**	1,350,448	**972,072**	1,350,448
Amounts owed by group undertakings	**3,754,201**	6,411,575	**5,757,271**	7,724,237
Other debtors and prepayments	**1,067,848**	3,070,299	**1,067,848**	3,070,299
Corporation tax	**687**	-	-	-
Deferred tax	**287,843**	28,595	**287,843**	28,595
	6,082,651	10,860,917	**8,085,034**	12,173,579

Amounts owed by group undertakings are unsecured, interest free and repayable on demand.

The group and company deferred tax debtor comparative has been restated by £28,595, from £nil to £28,595 to reflect the recognition of the deferred tax asset required under the adoption of FRS 19. See notes 14 and 16 for further details.

13 Creditors – Amounts falling due within one year

	Group		Company	
	2002	2001	2002	2001
	£	£	£	£
Bank loans and overdrafts	-	352,297	-	352,297
Trade creditors	**982**	372,009	**982**	372,009
Amounts owed to group undertakings	**10,771,722**	8,891,539	**12,974,760**	10,272,999
Corporation tax payable	**185,535**	497,802	**185,535**	474,637
Other taxation and social security	**446,869**	403,306	**446,869**	403,306
Accruals and other creditors	**1,527,763**	1,901,536	**1,430,327**	1,891,536
Deferred income	**318,122**	298,038	**318,122**	298,038
	13,250,993	12,716,527	**15,356,595**	14,064,822

Included with amounts owed to group undertakings are loans from the company's parent company amounting to £9,013,571 (2001: £4,317,363). These loans are unsecured, repayable on demand and interest is charged at LIBOR plus 0.75%. All other amounts owed to group undertaking are unsecured, interest free and repayable on demand.

14 Provisions for liabilities and charges

Group and Company

	Deferred tax provision	Other provisions	Total
	£	£	£
At 1 July 2001 as previously reported	22,061	982,000	1,004,061
Prior year adjustment	(22,061)	-	(22,061)
At 1 July 2001 restated	-	982,000	982,000
Utilised in year	-	(482,000)	(482,000)
Charged to profit and loss account	-	400,000	400,000
At 30 June 2002	-	**900,000**	**900,000**

Other provisions include amounts of £500,000 (2001: £682,000) provided in respect of certain vacant leasehold properties held by the group. The provision represents the expected future rentals and service costs to be incurred up to the expiry of the final lease. In determining the provision the expected cash flows have been discounted by an annual rate of 7.5%. The remaining £400,000 represents amounts provided in respect of fixed assets owned by the company, which are held at the vacant leasehold properties. At this time the directors have not been able to identify any future use for these assets and therefore provision has been made.

Deferred tax asset provided at year-end comprises:

	2002	2001 restated
	£	£
Accelerated capital allowances	**(237,876)**	(28,134)
Other short term timing differences	**(49,967)**	(461)
	(287,843)	(28,595)

The deferred tax asset has been recognised within debtors (see note 12).

The deferred tax provision comparative has been restated by £50,656 from a liability of £22,061 to asset of £28,595 to reflect the recognition of the deferred tax asset required under the adoption of FRS 19.

15 Called-up share capital

	Group and Company	
	2002	2001
	£	£
Authorised		
500,000 ordinary shares of £1 each	**500,000**	500,000
Allotted, called-up, and fully paid		
186,500 ordinary shares of £1 each	**186,500**	186,500

16 Profit and loss account

	Group £	Company £
At 1 July 2001 as previously reported	4,274,839	4,208,664
Prior year adjustment – FRS 19	50,656	50,656
At 1 July 2001 restated	4,325,495	4,259,320
Profit for the financial year	187,818	136,157
As at 30 June 2002	**4,513,313**	**4,395,477**

The prior year adjustment relates to the adoption of FRS 19 in the year. The effect of this change in the accounting period was to reduce tax on profit on ordinary activities by £259,248 (2001: £55,608 increase) and to increase profit for the financial year by £259,248 (2001: £55,608 decrease).

Analysis of prior year adjustment – FRS 19	£
Adjustment to opening reserve at 1 July 2000	106,264
Adjustment to profit and loss for year ended 30 June 2001	(55,608)
	50,656

17 Reconciliation of movements in group shareholders' funds

	2002 £	2001 (restated) £
Profit for the financial year	**187,818**	1,429,924
Opening shareholders' funds (previously £4,461,339 before prior year adjustment)	**4,511,995**	3,082,071
Closing shareholders' funds	**4,699,813**	4,511,995

18 Operating leases

At 30 June 2002 the group and the company had annual commitments under non-cancellable operating leases as follows

	2002	2001
	Land and buildings	Land and buildings
	£	£
Operating leases expire:		
Within one year	-	25,118
Between two and five years	**307,320**	190,989
After five years	**65,216**	284,214
	372,536	500,321

19 Pension scheme

The group and the company operates a number of defined contribution pension schemes during the year.

The KLA Retirement and Death Benefit Plan (1984) is administered by Scottish Life. The assets of the scheme are held separately from those of the group in an independently administered fund. The pension cost charge includes contributions payable by the group to this fund and amounted to £3,550 (2001: £4,201). There were no outstanding contributions at the year-end (2001: £Nil).

The KLA-Tencor Group Personal Pension Plan is administered by Skandia, commenced on 6 April 1998. The assets of the scheme are held separately from those of the group in an independently administered fund. The pension cost charge includes contributions payable by the group to this fund and amounted to £181,416 (2001: £260,441). There were no outstanding contributions at the year-end (2001: £Nil).

The KLA-Tencor (formerly Tencor Instruments Limited) Group Personal Pension Plan is administered by Old Mutual and is a pension established by Tencor Instruments Limited prior to the merger with KLA Instruments Limited. The assets of the scheme are held separately from those of the group in an independently administered fund. The pension cost charge includes contributions payable by the group to this fund and amounted to £15,320 (2001: £17,468). There were no outstanding contributions at the year-end (2001: £Nil).

The KLA-Tencor (formerly Tencor Instruments Limited) Group Personal Pension Plan is administered by Abbey Life and is a pension plan established by Tencor Instruments Limited prior to the merger with KLA Instruments Limited. The assets of the scheme are held separately from those of the group in an independently administered fund. The pension cost charge includes contributions payable by the group to this fund and amounted to £1,936 (2001: £2,561). There were no outstanding contributions at the year-end (2001: £Nil).

The KLA-Tencor Occupational Pension Plan is administered by Skandia and commenced on 1 January 2001. The assets of the scheme are held separately from those of the group in an independently administered fund. The pension cost charge includes contributions payable by the group to this fund and amounted to £11,794 (2001: £33,236). There were no outstanding contributions at the year-end (2001: £Nil).

The group also contributes to personal pension plans and to pension schemes operated by fellow group companies on behalf of its employees. The pension cost charge includes contributions payable by the group to these of £19,935 (2001:£23,749). There were no outstanding contributions at the year-end (2001: £Nil).

20 Ultimate parent undertaking

The directors regard KLA-Tencor Corporation, a company incorporated in the United States of America, as the ultimate parent company and controlling party. According to the register kept by the Company, KLA-Tencor Corporation has a 100% interest in the equity capital of KLA-Tencor Limited at 30 June 2002. Copies of the group financial statements may be obtained from 160 Rio Robles, PO Box 49055, San Jose, CA95161-9055.