

Registered Number 1560324

KLA-Tencor Limited
Annual Report
for the year ended 30 June 2004



KLA-Tencor Limited

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Directors' report for the year ended 30 June 2004

The directors present their report and the audited financial statements for the year ended 30 June 2004.

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.

The company operates branches in Ireland and the Netherlands.

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 (2003 £nil).

Directors and their interests

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

J Kispert
S J Nichols
P Boudre

None of the directors had any disclosable interest in the shares of the company at 30 June 2004 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 options 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. They also confirm that reasonable and prudent judgements and estimates have been made in preparing the financial statements for the year ended 30 June 2004 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

The auditors, PricewaterhouseCoopers LLP, have indicated their willingness to continue in office and a resolution concerning their reappointment will be proposed at the Annual General Meeting.

On behalf of the Board

Director


October 25th 2005

Consolidated profit and loss account for the year ended 30 June 2004

	Note	2004 £	2003 Restated £
Turnover	2	29,530,336	26,555,414
Cost of sales		(18,177,174)	(16,677,844)
Gross profit		11,353,162	9,877,570
Administrative expenses		(10,087,606)	(9,242,410)
Operating profit	3	1,265,556	635,160
Interest receivable		173,782	45,468
Interest payable	6	(143,450)	(551,781)
Profit on ordinary activities before taxation		1,295,888	128,847
Tax (charge) / credit on profit on ordinary activities	7	(396,271)	83,180
Retained profit for the financial year	16	899,617	212,027

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.

The group has no recognised gains and losses other than the profits above and therefore no separate statement of total recognised gains and losses has been prepared.

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 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 2004 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 November 2005

Balance sheets as at 30 June 2004

		Group		Company	
	Note	2004 £	2003 £	2004 £	2003 £
Fixed Assets					
Tangible assets	9	413,773	569,236	413,773	569,236
Investments	10	-	-	10,000	10,000
		413,773	569,236	423,773	579,236
Current assets					
Stock	11	6,735,339	8,486,538	6,735,339	8,486,538
Debtors	12	4,847,386	4,629,410	6,916,991	6,699,015
Cash at bank and in hand		7,360,787	11,390,875	7,360,787	11,390,875
		18,943,512	24,506,823	21,013,117	26,576,428
Creditors – Amounts falling due within one year	13	(5,363,497)	(11,920,888)	(7,566,232)	(14,123,623)
Net current assets		13,580,015	12,585,935	13,446,885	12,452,805
Total assets less current liabilities		13,993,788	13,155,171	13,870,658	13,032,041
Provisions for liabilities and charges	14	(682,331)	(743,331)	(682,331)	(743,331)
Net assets		13,311,457	12,411,840	13,188,327	12,288,710
Capital and reserves					
Called-up share capital	15	186,500	186,500	186,500	186,500
Capital contribution	16	7,500,000	7,500,000	7,500,000	7,500,000
Profit and loss account	16	5,624,957	4,725,340	5,501,827	4,602,210
Equity shareholders' funds	17	13,311,457	12,411,840	13,188,327	12,288,710

The financial statements on pages 4 to 14 were approved by the board of directors on and were signed on its behalf by:

Director


Oct. 25th 2005

Notes to the financial statements for the year ended 30 June 2004

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 2004.

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.

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. Deferred taxation assets and liabilities are not discounted.

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	2 – 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 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:

	2004 £	2003 Restated £
United Kingdom	2,460,829	2,894,378
Rest of Europe	7,112,567	7,489,156
United States of America	19,706,587	16,103,063
Asia	250,353	68,817
	29,530,336	26,555,414

The turnover and cost of sales for 2003 has been restated. The previous presentation netted off purchases of parts stock items from the US, against returns of parts stock items to the US. It is considered fairer presentation to recognise these sales, and to include the related costs within cost of sales. There is no impact on profit or retained earnings in performing this restatement. The impact of the restatement was to increase sales and cost of sales for 2003 by £11,222,551, from £15,332,863 and £5,455,293 to £26,555,414 and £16,677,844 respectively.

3 Operating profit

	2004 £	2003 £
Operating profit is stated after charging / (crediting):		
Wages and salaries (including directors' remuneration)	3,705,137	3,341,086
Social security costs	636,647	406,715
Pension costs (Note 19)	253,584	197,723
Staff costs	4,595,368	3,945,524
Auditors' remuneration		
- Audit (company £43,600(2003 £33,500)	50,500	43,025
- Non-audit services	60,009	69,982
Depreciation of tangible owned fixed assets	229,006	428,766
Profit on disposal of tangible fixed assets	(22,085)	(45,331)
Operating lease charges – other leases	244,260	388,957
Exchange loss arising on translation of foreign currencies	938,241	978,179

4 Employee information

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

By activity	2004	2003
Engineering and servicing	42	50
Selling and distribution	13	13
Administration	22	20
	77	83

5 Directors' emoluments

	2004 £	2003 £
Aggregate emoluments	-	51,185
Company pension contributions to money purchase schemes	-	1,407

Retirement benefits are accruing to no (2003: one) directors under defined contribution pension schemes.

6 Interest payable

	2004 £	2003 £
Interest payable to group undertakings	131,450	441,270
Bank interest payable	-	33,440
Other interest payable	12,000	77,071
	143,450	551,781

7 Tax charge / (credit) on profit on ordinary activities

	2004 £	2003 £
Current tax		
UK corporation tax at 30% (2003: 30%)	358,036	(18,317)
Adjustment in respect of prior years	(38,000)	(94,716)
Total current tax	320,036	(113,033)
Deferred tax		
Origination and reversal of timing differences	76,235	29,853
Total deferred tax	76,235	29,853
Tax charge / (credit) on profit on ordinary activities	396,271	(83,180)

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

	2004 £	2003 £
Profit on ordinary activities before tax	1,295,888	128,847
Profit on ordinary activities multiplied by the standard rate in the UK 30%	388,766	38,654
Expenses not deductible for tax purposes	15,505	29,540
Accelerated capital allowances	(46,235)	(76,217)
Other timing differences	-	(10,294)
Adjustments to tax charge in respect of previous period	(38,000)	(94,716)
	320,036	(113,033)

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 £899,617 (2003: £206,733).

9 Tangible fixed assets

Group and Company

	Leasehold improvements £	Equipment and motor vehicles £	Furniture, fixtures and fittings £	Total £
Cost				
At 1 July 2003	1,461,675	2,219,883	587,241	4,268,799
Additions	-	84,221	-	84,221
Disposals	-	(106,093)	-	(106,093)
At 30 June 2004	1,461,675	2,198,011	587,241	4,246,927
Accumulated depreciation				
At 1 July 2003	1,115,061	2,055,321	529,181	3,699,563
Charge for the year	41,690	177,744	9,572	229,006
Transfers	91,759	(91,759)	-	-
Disposals	-	(95,415)	-	(95,415)
At 30 June 2004	1,248,510	2,045,891	538,753	3,833,154
Net book value				
At 30 June 2004	213,165	152,120	48,488	413,773
At 30 June 2003	346,614	164,562	58,060	569,236

10 Investments

Company

	£
Cost and net book value at 30 June 2003 and 30 June 2004	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	Non-trading	100	United Kingdom

11 Stocks

Group and Company

	2004 £	2003 £
Raw materials and consumables	6,735,339	8,486,538

12 Debtors – Amounts falling due within one year

	Group		Company	
	2004 £	2003 £	2004 £	2003 £
Trade debtors	1,129,403	1,119,359	1,129,403	1,119,359
Amounts owed by group undertakings	2,855,093	3,022,647	4,924,698	5,092,252
Other debtors and prepayments	424,230	93,997	424,230	93,997
Corporation tax	256,905	135,417	256,905	135,417
Deferred tax (see note 14)	181,755	257,990	181,755	257,990
	4,847,386	4,629,410	6,916,991	6,699,015

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

13 Creditors – Amounts falling due within one year

	Group		Company	
	2004 £	2003 £	2004 £	2003 £
Trade creditors	316,507	198,825	316,507	198,825
Amounts owed to group undertakings	3,842,450	10,263,908	6,056,237	12,477,695
Other taxation and social security	116,786	172,216	116,786	172,216
Accruals and other creditors	823,527	928,384	812,475	917,332
Deferred income	264,227	357,555	264,227	357,555
	5,363,497	11,920,888	7,566,232	14,123,623

Included within amounts owed to group undertakings are loans from the company's parent company amounting to £ nil (2003: £7,551,591). 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 2003	-	743,331	743,331
Utilised in year	-	(61,000)	(61,000)
At 30 June 2004	-	682,331	682,331

Other provisions include amounts of £682,331 (2003: £743,331) 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%.

Deferred tax asset provided at year-end comprises:

	2004 £	2003 £
Accelerated capital allowances	(181,755)	(227,990)
Other short term timing differences	-	(30,000)
	(181,755)	(257,990)

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

15 Called-up share capital

	Group and Company	
	2004	2003
	£	£
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 Reserves

	Capital contribution		Profit and loss reserve	
	Group	Company	Group	Company
	£	£	£	£
At 1 July 2003	7,500,000	7,500,000	4,725,340	4,602,210
Profit for the financial year	-	-	899,617	899,617
As at 30 June 2004	7,500,000	7,500,000	5,624,957	5,501,827

17 Reconciliation of movements in group shareholders' funds

	2004	2003
	£	£
Profit for the financial year	899,617	212,027
Capital contribution	-	7,500,000
Opening shareholders' funds	12,411,840	4,699,813
Closing shareholders' funds	13,311,457	12,411,840

18 Operating leases

At 30 June 2004 the group and the company had annual commitments under non-cancellable operating leases as follows:

	2004	2003
	Land and buildings	Land and buildings
	£	£
Operating leases expire:		
Less than one year	66,216	-
Between two and five years	234,816	307,320
After five years	38,400	65,216
	339,432	372,536

19 Pension scheme

The group and the company operates a number of defined contribution pension schemes during the year. The assets of these schemes are held separately from those of the group in independently administered funds. The pension cost charge includes contributions payable by the group to these funds and amounted to £253,584 (2003: £197,723). There were no outstanding contributions at the year-end (2003: £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 2004. Copies of the group financial statements may be obtained from 160 Rio Robles, PO Box 49055, San Jose, CA95161-9055.