

KLA - Tencor Limited

Report and Financial Statements

Year Ended

30 June 2013

Company Number 1560324



KLA - Tencor Limited

**Report and financial statements
for the year ended 30 June 2013**

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Directors

B M Martin
V A Kirloskar

Secretary and registered office

Abogado Nominees Limited, 100 New Bridge Street, London, EC4V 6JA

Company number

1560324

Auditors

BDO LLP, Bridgewater House, Finzels Reach, Counterslip, Bristol, BS1 6BX

KLA - Tencor Limited

Report of the directors for the year ended 30 June 2013

The directors present their report together with the audited financial statements for the year ended 30 June 2013

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 continue to be providing maintenance services to customers of the company and providing equipment installation, after sales support and sales promotion services to group companies and external customers.

The company operates branches in the Netherlands and Belgium.

Business review and future developments

The results for the UK company show a pre-tax profit of £1,567,081 for the year (2012 - £17,413) and sales of £49,406,961 (2012 - £47,638,378). The company had cash of £5,140,910 at 30 June 2013 (2012 - £3,235,376).

The performance of the UK business is regularly assessed by the parent company at management level with a view to current market conditions. The company seeks to maintain a competitive advantage and a close and responsive relationship with our customers.

There are currently no plans for any future strategic changes to the business.

Business environment

The semi-conductor equipment market is driven by technology, and the market is cyclical. The continuing evolution of semi-conductor devices to smaller line width geometries and more complex multi-level circuitry has significantly increased the cost and performance requirements of the capital equipment used to manufacture these devices. Our process control and yield management solutions enable our customers to improve their return on investment on this equipment.

Strategy

KLA-Tencor's group strategy is to maximise its position in the market place. As a service provider the strategy is to maximise our customers' use of KLA - Tencor Limited for the servicing of KLA-Tencor Corporation tools. Our staff are trained and certified in the servicing of KLA-Tencor Corporation tools and yield management solutions, ensuring world class service offerings.

KLA-Tencor Corporation believes that continued and timely development of new products and enhancements to existing products are necessary to maintain its competitive position.

Principal risks and uncertainties

Our operating results may not follow any past trends, but we believe the following could make our results fluctuate.

- Foreign exchange movement
- Cyclical nature of the semi-conductor market
- Global economic uncertainty
- Competitive pressure
- Our customers acceptance and adoption of new products and technologies
- Our ability to protect our intellectual property

Market, credit and liquidity risks are managed by the KLA-Tencor Corporation internal management team and their external investment managers.

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.

KLA - Tencor Limited

Report of the directors for the year ended 30 June 2013 (continued)

Key performance indicators ("KPIs")

Given the straightforward nature of the business, a quarterly balanced scorecard approach is taken to monitor the company performance. The key measurements are Customer Focus, Company Growth, Operational Excellence and Talent Management with key matrices defined and monitored by the parent company.

In 2013, the European companies, including KLA-Tencor Ltd, achieved a total score of 3 out of 5 which is equal to the 2012 overall score. Operational Excellence and Talent Management scored highly to reflect the company policy of recruiting and retaining top quality employees. Product bookings were down this year although product share and customer satisfaction both scored a 4.

Results and dividends

The profit and loss account for the year is set out on page 6. The directors do not recommend the payment of a dividend for the year (2012 - Nil).

Subsequent to the year end a dividend of £26.36 per ordinary share was declared and paid on 23 July 2013.

Directors

The directors of the company during the year were

B M Martin
V A Kirloskar

Directors' responsibilities

The directors are responsible for preparing the annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period.

In preparing these financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgements and accounting estimates that are reasonable and prudent,
- state whether applicable UK 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 adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

KLA - Tencor Limited

Report of the directors for the year ended 30 June 2013 (continued)

Auditors

All of the current directors have taken all the steps that they ought to have taken to make themselves aware of any information needed by the company's auditors for the purposes of their audit and to establish that the auditors are aware of that information. The directors are not aware of any relevant audit information of which the auditors are unaware.

The auditors, BDO LLP, are deemed to be reappointed in accordance with section 487 of the Companies Act 2006.

On behalf of the Board



V A Kirloskar
Director

Date

25/3/14

KLA - Tencor Limited

Independent auditor's report

TO THE MEMBERS OF KLA - TENCOR LIMITED

We have audited the financial statements of KLA - Tencor Limited for the year ended 30 June 2013 which comprise the profit and loss account, the balance sheet and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. 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

As explained more fully in the statement of directors' responsibilities, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Financial Reporting Council's (FRC's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the FRC's website at www.frc.org.uk/auditscopeukprivate.

Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the company's affairs as at 30 June 2013 and of its profit for the year then ended,
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion the information given in the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements.

KLA - Tencor Limited

Independent auditor's report (*continued*)

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us, or
- the financial statements are not in agreement with the accounting records and returns, or
- certain disclosures of directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit

BDO LLP

*Andrea Bishop (senior statutory auditor)
For and on behalf of BDO LLP, statutory auditor
Bristol
United Kingdom*

Date *27 March 2014*

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127)

KLA - Tencor Limited

Profit and loss account for the year ended 30 June 2013

	Note	2013 £	2012 £
Turnover	2	49,406,961	47,638,378
Cost of sales		(45,888,192)	(42,827,834)
Gross profit		3,518,769	4,810,544
Administrative expenses		(2,905,795)	(3,297,791)
Foreign exchange gain/(loss)		952,402	(1,516,672)
Total administrative expenses		(1,953,393)	(4,814,463)
Operating profit/(loss)	3	1,565,376	(3,919)
Other interest receivable and similar income		1,705	21,341
Interest payable and similar charges		-	(9)
Profit on ordinary activities before taxation		1,567,081	17,413
Taxation on profit from ordinary activities	6	(235,853)	(181,587)
Profit/(loss) on ordinary activities after taxation	14	1,331,228	(164,174)

All amounts relate to continuing activities

All recognised gains and losses are included in the profit and loss account

The notes on pages 8 to 19 form part of these financial statements

KLA - Tencor Limited

Balance sheet
at 30 June 2013

Company number 1560324	Note	2013 £	2013 £	2012 £	2012 £
Fixed assets					
Tangible assets	7		47,960		69,251
Investments	8		1,517,521		1,517,521
			<u>1,565,481</u>		<u>1,586,772</u>
Current assets					
Stocks	9	13,093,434		13,428,297	
Debtors	10	5,036,550		5,246,558	
Cash at bank and in hand		5,140,910		3,235,376	
		<u>23,270,894</u>		<u>21,910,231</u>	
Creditors amounts falling due within one year	11	(5,598,342)		(5,139,651)	
		<u></u>		<u></u>	
Net current assets			17,672,552		16,770,580
Total assets less current liabilities			<u>19,238,033</u>		<u>18,357,352</u>
Provisions for liabilities	12		(47,889)		(47,889)
			<u></u>		<u></u>
Net assets			<u>19,190,144</u>		<u>18,309,463</u>
Capital and reserves					
Called up share capital	13		186,500		186,500
Capital contribution	14		7,500,000		7,500,000
Profit and loss account	14		11,503,644		10,622,963
			<u></u>		<u></u>
Shareholders' funds	15		<u>19,190,144</u>		<u>18,309,463</u>

The financial statements were approved by the Board of Directors and authorised for issue on

V A Kirloskar
Director

25/3/14

The notes on pages 8 to 19 form part of these financial statements

KLA - Tencor Limited

Notes forming part of the financial statements for the year ended 30 June 2013

1 Accounting policies

The financial statements have been prepared under the historical cost convention, and are in accordance with applicable accounting standards

Basis of accounting

The financial statements have been prepared on a going concern basis. 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.

The company is exempt under section 401 of the Companies Act 2006 from the requirement to prepare consolidated financial statements as it and its subsidiary undertakings are included in the full consolidated financial statements of its parent, KLA-Tencor Corporation. These financial statements therefore present information about the company and not about its group.

Turnover

Turnover represents the total invoice value, excluding value added tax, of sales made during the year.

Turnover is derived from 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.

Revenue is generally recognised when all of the following conditions are satisfied:

- (i) There is persuasive evidence of an arrangement
- (ii) The service has been provided to the customer
- (iii) The amount of fees to be paid by the customer are fixed or determinable
- (iv) The collection of the fees is probable

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

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 historical 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
Plant, machinery and motor vehicles	-	2 - 5 years
Fixtures, fittings and equipment	-	5 years

Stocks

Stocks are valued at the lower of cost and net realisable value. Cost is based on the cost of purchase on a first in, first out basis. Net realisable value is based on estimated selling price.

KLA - Tencor Limited

Notes forming part of the financial statements for the year ended 30 June 2013 (*continued*)

1 Accounting policies (*continued*)

Foreign currencies

Transactions denominated in foreign currencies are translated into sterling and recorded at exchange rates ruling at the transaction date. Monetary assets and liabilities in foreign currencies are translated into sterling 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.

Investments

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

Taxation

The charge for taxation is based on the profit for the year and takes into account taxation deferred.

Current tax is measured at amounts expected to be paid using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Deferred tax balances are recognised in respect of all timing differences that have originated but not reversed by the balance sheet date except that the recognition of deferred tax assets is limited to the extent that the company anticipates making sufficient taxable profits in the future to absorb the reversal of the underlying timing differences. Deferred tax balances are not discounted.

Leased assets

Where assets are financed by leasing agreements that give rights approximating to ownership ('finance leases'), the assets are treated as if they had been purchased outright. The amount capitalised is the present value of the minimum lease payments payable during the lease term. The corresponding leasing commitments are shown as amounts payable to the lessor. Depreciation on the relevant assets is charged to the profit and loss account.

Lease payments are analysed between capital and interest components so that the interest element of the payment is charged to the profit and loss account over the period of the lease and represents a constant proportion of the balance of capital repayments outstanding. The capital part reduces the amounts payable to the lessor.

All other leases are treated as operating leases. Their annual rentals are charged to the profit and loss account on a straight-line basis over the term of the lease.

Pension costs

Contributions to the company's defined contribution pension scheme are charged to the profit and loss account in the year in which they become payable. The assets of the scheme are held separately in an independently administered fund.

Related parties

The company is a wholly owned subsidiary of KLA-Tencor Corporation and has taken advantage of the exemption conferred by Financial Reporting Standard 8 'Related party disclosures' not to disclose transactions with KLA-Tencor Corporation, KLA - Tencor Ireland Limited and other wholly owned subsidiaries within the group.

KLA - Tencor Limited

Notes forming part of the financial statements for the year ended 30 June 2013 (continued)

1 Accounting policies (continued)

Cash flow statement

The directors have taken advantage of the exemption in Financial Reporting Standard No 1 (revised) from including a cash flow statement in the financial statements on the grounds that the company is wholly owned and its parent publishes consolidated financial statements

Provisions

The company recognises a provision where a legal or constructive obligation exists at the balance sheet date and a reliable estimate can be made of the likely outcome

Share based payments

The ultimate parent company, KLA-Tencor Corporation, operates equity-settled, share-based compensation plans. Certain employees of the company receive awards of options or restricted stock under these plans. The fair value of the employee services received in exchange for these awards is recognised as an expense. The total amount to be expensed over the vesting period is determined by the fair value of the awards granted. At each balance sheet date, the company revises its estimate of the awards that are expected to vest. It recognises the impact of the revision to original estimates, if any, in the profit and loss account, with a corresponding adjustment to the profit and loss reserve.

Upon exercise, KLA-Tencor Corporation makes a recharge to the company in respect of certain share awards granted to the company's employees.

When incurred, these intercompany charges are offset in the profit and loss reserve against the share based payment charge, the excess is treated as a distribution from the company to its parent.

Dividends

Equity dividends are recognised when they become legally payable

2 Turnover

The geographical analysis of turnover by destination is as follows

	2013 £	2012 £
United Kingdom	2,956,512	2,468,460
Rest of Europe	24,203,785	20,749,779
United States of America	19,558,532	21,484,125
Rest of world	2,688,132	2,936,014
	<hr/>	<hr/>
	49,406,961	47,638,378
	<hr/>	<hr/>

KLA - Tencor Limited

Notes forming part of the financial statements for the year ended 30 June 2013 (continued)

3 Operating profit/(loss)

	2013 £	2012 £
Services provided by the company's auditor		
- fees payable for the audit	39,000	38,800
- fees payable for other services - tax compliance	8,900	8,900
Depreciation of tangible owned fixed assets	30,058	29,966
Depreciation of fixed assets held under finance leases	-	224
Operating lease charges		
- land and building	31,302	36,253
- plant and machinery	8,302	16,687
Exchange (gain)/loss arising on translation of foreign currencies	(952,402)	1,516,672

4 Wages and salaries

	2013 £	2012 £
Staff costs (including directors) consist of		
Wages and salaries (including directors' remuneration)	2,389,365	2,710,149
Social security costs	354,395	369,354
Share based payment - fair value of employee services (note 18)	99,889	303,945
Pension costs (note 17)	339,796	157,342
	3,183,445	3,540,790

The average number of persons (including directors) employed by the company during the year was

	2013 Number	2012 Number
Engineering and servicing	18	19
Selling and distribution	4	5
Administration	10	10
	32	34

5 Directors

The emoluments of all directors during the current and prior year were paid by other group companies for services to the group as a whole, and the directors received no separate emoluments for their services to this company. The Directors consider the services provided to the company to be incidental.

No recharge for any of these services was made to the company, and no apportionment of their total remuneration for these services is possible. Where required by local legislation their remuneration is disclosed in the accounts of their employer.

No retirement benefits are accruing to directors (2012 - Nil) under defined contribution pension schemes.

KLA - Tencor Limited

Notes forming part of the financial statements
for the year ended 30 June 2013 (continued)

6 Taxation on profit from ordinary activities			
		2013	2012
		£	£
<i>Current tax</i>			
UK corporation tax at 23 75% (2012 - 25 50%)		234,629	40,713
Double tax relief		(58,897)	(40,713)
Overseas tax		58,897	168,410
Adjustment in respect of prior years		(291)	(706)
		<hr/>	<hr/>
Total current tax		234,338	167,704
<i>Deferred tax</i>			
Origination and reversal of timing differences		1,515	9,989
Effect of tax rate change on opening balance		-	3,894
		<hr/>	<hr/>
Total deferred tax		1,515	13,883
		<hr/>	<hr/>
Taxation on profit on ordinary activities		235,853	181,587
		<hr/>	<hr/>
The tax assessed for the year is lower than the standard rate of corporation tax in the UK The differences are explained below			
		2013	2012
		£	£
Profit on ordinary activities before tax		1,567,081	17,413
		<hr/>	<hr/>
Profit on ordinary activities at the standard rate of corporation tax in the UK of 23 75% (2012 - 25 50%)		372,182	4,440
Effects of			
Expenses not deductible for tax purposes		3,370	10,275
Other short term timing difference		29,271	77,514
Accelerated capital allowances		(6,956)	(10,614)
Foreign tax		-	127,698
Adjustments to tax charge in respect of previous period		(291)	(706)
Other permanent differences		(123,996)	(40,903)
Income not taxable for tax purposes		(39,242)	-
		<hr/>	<hr/>
Current tax charge for year		234,338	167,704
		<hr/>	<hr/>

KLA - Tencor Limited

Notes forming part of the financial statements
for the year ended 30 June 2013 (continued)

7 Tangible fixed assets

	Leasehold improvements £	Plant, machinery and motor vehicles £	Fixtures, fittings and equipment £	Total £
<i>Cost</i>				
At 1 July 2012	62,097	817,244	22,299	901,640
Additions	-	8,017	750	8,767
Disposals	-	(716,983)	(2,760)	(719,743)
At 30 June 2013	62,097	108,278	20,289	190,664
<i>Depreciation</i>				
At 1 July 2012	30,238	781,260	20,891	832,389
Provided for the year	2,712	25,840	1,506	30,058
Disposals	-	(716,983)	(2,760)	(719,743)
At 30 June 2013	32,950	90,117	19,637	142,704
<i>Net book value</i>				
At 30 June 2013	29,147	18,161	652	47,960
At 30 June 2012	31,859	35,984	1,408	69,251

The net book value of fixed assets includes an amount of £Nil (2012 - £Nil) within equipment and motor vehicles in respect of assets held under finance leases

8 Investments

	£
At 1 July 2012 and at 30 June 2013	1,517,521

Investments represent the Company's interest in its wholly owned subsidiary undertaking KLA - Tencor Ireland Limited, a company registered in Ireland. The company also held a 100% holding in KLA-Tencor (Service) Limited, a previously dormant company registered in United Kingdom which was dissolved on 16 October 2012.

Subsidiary undertaking	Nature of business	% Ordinary shares and voting rights	Country of registration
KLA - Tencor Ireland Limited	Trading - Providing maintenance services to customers in the semi-conductor industry	100	Ireland

KLA - Tencor Limited

Notes forming part of the financial statements
for the year ended 30 June 2013 (continued)

8 Investments (continued)

The following table shows, for each investment, the amount of capital and reserves at the end of the most recent financial year, and the profit or loss for that year

Subsidiary undertaking	Year ended	Loss for the year	Capital and reserves
KLA - Tencor Ireland Limited	30 June 2013	€403,387	€9,272,288

The directors believe that the carrying value of the investments is supported by their underlying net assets

9 Stocks

	2013 £	2012 £
Raw materials and consumables	13,093,434	13,428,297

There is no material difference between the replacement cost of stocks and the amounts stated above

10 Debtors

	2013 £	2012 £
Trade debtors	432,812	556,002
Amounts owed by group undertakings	3,627,115	4,329,151
Other debtors and prepayments	273,586	273,194
Deferred tax (see note 12)	35,233	36,748
Corporation tax	-	51,463
VAT debtor	667,804	-
	5,036,550	5,246,558

All amounts shown under debtors fall due for payment within one year

11 Creditors: amounts falling due within one year

	2013 £	2012 £
Trade creditors	157,738	129,558
Amounts owed to group undertakings	4,577,109	3,757,775
Other taxation and social security	133,035	679,509
Accruals and other creditors	718,145	567,330
Deferred income	9,905	5,479
Corporation tax	2,410	-
	5,598,342	5,139,651

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

KLA - Tencor Limited

Notes forming part of the financial statements
for the year ended 30 June 2013 (*continued*)

12 Provisions for liabilities

	Dilapidations provision £
At 1 July 2012 and at 30 June 2013	47,889

The provision represents the expected future costs to be incurred in accordance with the lease agreements, to repair the properties to their state at the commencement of the lease

Deferred tax asset provided at year-end comprises

	2013 £	2012 £
Accelerated capital allowances	28,480	36,748
Short term timing differences	6,753	-
	<u>35,233</u>	<u>36,748</u>
1 July 2012	36,748	50,631
Deferred tax in the profit and loss account (note 6)	(1,515)	(13,883)
	<u>35,233</u>	<u>36,748</u>
30 June 2013	<u>35,233</u>	<u>36,748</u>

There is no deferred tax liability The deferred tax asset has been recognised within debtors (see note 10)

13 Called-up share capital

	2013 £	2012 £
<i>Allotted called-up and fully paid</i> 186,500 ordinary shares of £1 each	186,500	186,500

14 Reserves

	Capital contribution £	Profit and loss account £
At 1 July 2012	7,500,000	10,622,963
Profit for the financial year	-	1,331,228
Share based payment - distribution	-	(450,547)
	<u>7,500,000</u>	<u>11,503,644</u>
At 30 June 2013	<u>7,500,000</u>	<u>11,503,644</u>

KLA - Tencor Limited

Notes forming part of the financial statements
for the year ended 30 June 2013 (continued)

15 Reconciliation of movements in shareholders' funds

	2013 £	2012 £
Profit/(loss) for the year	1,331,228	(164,174)
Share based payment	99,889	303,945
Intercompany recharge - share based payment	(550,436)	(671,847)
Net increase in shareholders' funds	880,681	(532,076)
Opening shareholders' funds	18,309,463	18,841,539
Closing shareholders' funds	19,190,144	18,309,463

16 Financial commitments

At 30 June 2013 the company had annual commitments under non-cancellable operating leases as follows

	2013 Land and buildings £	2013 Plant and machinery £	2012 Land and buildings £	2012 Plant and machinery £
Operating leases which expire				
Within one year	-	-	-	7,471
In two to five years	25,650	4,542	19,236	-
Over five years	-	-	-	-
	25,650	4,542	19,236	7,471

17 Pension scheme

The company operated a number of defined contribution pension schemes during the year. The assets of these schemes are held separately from those of the company in independently administered funds. The pension cost charge includes contributions payable by the company to these funds and amounted to £339,796 (2012 - £157,342). There were no outstanding contributions at the year-end (2012 - Nil).

KLA - Tencor Limited

Notes forming part of the financial statements for the year ended 30 June 2013 (continued)

18 Share based payments

Substantially all of the Company's employees that meet established performance goals and qualify as key employees participate in its main equity incentive plan. Up to 30 June 2006, share options (except for the retroactively priced options which were primarily granted prior to the year ended 30 June 2002) were generally granted at the market price of the parent company's common stock on the date of grant, with a vesting period of five years and an exercise period not exceeding seven years (ten years for options granted prior to 1 July 2005) from the date of grant. Restricted stock units may be granted with varying criteria such as time-based or performance-based vesting.

Since 1 July 2006, the Company has granted only restricted stock units under its equity incentive program.

On 18 October 2004, the 2004 Equity Incentive Plan (the "2004 Plan") was approved. It provides for the grant of options to purchase shares of KLA-Tencor Inc's common stock, stock appreciation rights, restricted stock units, performance shares, performance units and deferred stock units to employees, consultants and members of the Board of Directors.

The expense recognised for share-based payments in respect of employee services received during the year to 30 June 2013 is £99,889 (2012 - £303,945). The portion of that expense arising from stock options is £Nil (2012 – debit of £8,737) and restricted share units is £99,889 (2012 - £312,682).

Stock options

The following table illustrates the number and weighted average exercise prices (WAEP) of, and movements in, share options during the year.

	2013 Number	2013 WAEP	2012 Number	2012 WAEP
Outstanding as at 1 July	41,023	£29.95	79,635	£28.45
Forfeited during the year	-	-	(509)	£32.91
Exercised	(19,361)	£28.75 ¹	(27,186)	£27.15 ²
Expired/adjusted during the year	(450)	£27.74	(7,532)	£29.92
Transfer/adjusted during the year	-	-	(3,385)	£30.01
	<hr/>		<hr/>	
Outstanding at 30 June	21,212	£31.88	41,023	£29.95
	<hr/>		<hr/>	
Exercisable at 30 June	21,212	£31.88	41,023	£29.95
	<hr/>		<hr/>	

1 The weighted average share price at the date of exercise for the options exercised is £34.64

2 The weighted average share price at the date of exercise for the options exercised is £32.56

KLA - Tencor Limited

Notes forming part of the financial statements for the year ended 30 June 2013 (continued)

18 Share based payments (continued)

For the share options outstanding as at 30 June 2013, the weighted average remaining contractual life is 0.8 years (2012 - 1.4 years)

No options were granted in the years ended 30 June 2013 and 2012. The range of exercise prices for options outstanding at the end of the year was £25.55 - £38.20 (2012 - £22.20 - £37.21)

Restricted Stock Units (RSU's)

The following table illustrates the number of, and movements in, restricted stock units during the year

	2013 Number	2012 Number
Outstanding as at 1 July	45,430	49,825
Granted during the year	3,140	14,810
Forfeited during the year	(125)	(429)
Vested/released	(13,223) ¹	(17,530) ²
Transferred/adjusted during the year	-	(1,246)
	<hr/>	<hr/>
Outstanding at 30 June	35,222	45,430
	<hr/>	<hr/>
Unvested at 30 June	35,222	45,430
	<hr/>	<hr/>

1 The weighted average share price at the date of release for the awards is £31.60

2 The weighted average share price at the date of release for the awards is £27.09

For the restricted stock units outstanding as at 30 June 2013, the weighted average remaining contractual life is 1 year (2012 - 2.0 years)

The weighted average fair value of RSUs granted during the year was £29.40 (2012 - £22.38)

Valuation assumptions

The fair value of stock-based awards is measured at grant date and is recognised as an expense over the employee's requisite service period applying the straight-line attribution approach. The fair value is determined using a Black-Scholes valuation model for stock options and for purchase rights under the Company's Employee Stock Purchase Plan and using the closing price of the company's common stock on the grant date for restricted stock units.

The company has granted only restricted stock units under its equity incentive program since August 1 2006. From 1 October 2012 no further grants will occur on equity incentive program. In replacement a new LTIP (Long Term Incentive Policy) was implemented in the year.

There are no cash settled options as at 30 June 2013 (2012 -Nil)

KLA - Tencor Limited

**Notes forming part of the financial statements
for the year ended 30 June 2013 (*continued*)**

19 Ultimate parent undertaking and controlling party

The directors regard KLA-Tencor Corporation, a company incorporated in the United States of America, as the immediate and ultimate parent company and controlling party. This company is also the parent of the smallest and largest group to consolidate the results of the company. 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 2013. Copies of the group financial statements may be obtained from 160 Rio Robles, PO Box 49055, San Jose, CA95161-9055.

20 Post balance sheet events

Subsequent to the year end a dividend of £26.36 per ordinary share was declared and paid on 23 July 2013.