Registered Number 1560324

KLA-Tencor Limited
Annual Report
for the year ended 30 June 2003

KLA-Tencor Limited

Annual report for the year ended 30 June 2003

Directors' report for the year ended 30 June 2003

The directors present their report and the audited financial statements for the year ended 30 June 2003.

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.

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 (2002: £nil).

Directors and their interests

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

P Clibbon	(resigned 7 February 2003)
J Kispert	
S J Nichols	
P Boudre	(appointed 10 February 2003)

None of the directors had any disclosable interest in the shares of the company at 30 June 2003 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. They also confirm that reasonable and prudent judgements and estimates have been made in preparing the financial statements for the year ended 30 June 2003 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

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 2003 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

12 May 2005

Consolidated profit and loss account for the year ended 30 June 2003

	Note	2003 £	2002 £
Turnover	2	**15,332,863**	15,234,131
Cost of sales		**(5,455,293)**	(3,860,988)
Gross profit		**9,877,570**	11,373,143
Administrative expenses		**(9,242,410)**	(10,721,997)
Operating profit	3	**635,160**	651,146
Interest receivable		**45,468**	2,308
Interest payable	6	**(551,781)**	(408,034)
Profit on ordinary activities before taxation		**128,847**	245,420
Tax credit / (charge) on profit on ordinary activities	7	**83,180**	(57,602)
Retained profit for the financial year	16	**212,027**	187,818

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.

Balance sheets as at 30 June 2003

		Group		Company	
		2003	2002	**2003**	2002
	Note	**£**	£	**£**	£
Fixed Assets					
Tangible assets	9	**569,236**	1,062,876	**569,236**	1,062,876
Investments	10	**-**	-	**10,000**	10,000
		569,236	1,062,876	**579,236**	1,072,876
Current assets					
Stock	11	**8,486,538**	10,271,806	**8,486,538**	10,271,806
Debtors	12	**4,629,410**	6,082,651	**6,699,015**	8,085,034
Cash at bank and in hand		**11,390,875**	1,433,473	**11,390,875**	1,408,856
		24,506,823	17,787,930	**26,576,428**	19,765,696
Creditors – Amounts falling due within one year	13	**(11,920,888)**	(13,250,993)	**(14,123,623)**	(15,356,595)
Net current assets		**12,585,935**	4,536,937	**12,452,805**	4,409,101
Total assets less current liabilities		**13,155,171**	5,599,813	**13,032,041**	5,481,977
Provisions for liabilities and charges	14	**(743,331)**	(900,000)	**(743,331)**	(900,000)
Net assets		**12,411,840**	4,699,813	**12,288,710**	4,581,977
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**	-
Profit and loss account	16	**4,725,340**	4,513,313	**4,602,210**	4,395,477
Equity shareholders' funds	17	**12,411,840**	4,699,813	**12,288,710**	4,581,977

The financial statements on pages 4 to 14 were approved by the board of directors on 12 MAY 2005 and were signed on its behalf by:

P Boudre
Director

Notes to the financial statements for the year ended 30 June 2003

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 2003.

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.

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:

	2003 £	2002 £
United Kingdom	**2,997,384**	2,840,148
Rest of Europe	**7,238,403**	1,984,410
United States of America	**5,030,009**	10,409,573
Asia	**67,067**	-
	15,332,862	15,234,131

3 Operating profit

	2003 £	2002 £
Operating profit is stated after charging / (crediting):		
Wages and salaries (including directors' remuneration)	**3,341,086**	3,868,538
Social security costs	**406,715**	523,591
Pension costs (Note 19)	**197,723**	233,951
Staff costs	**3,945,524**	4,626,080
Auditors' remuneration		
- Audit (company £33,500 (2002: £28,075))	**43,025**	34,075
- Non-audit services	**69,982**	74,350
Depreciation of tangible owned fixed assets	**428,766**	1,088,167
Profit on disposal of tangible fixed assets	**(45,331)**	(10,505)
Operating lease charges – other leases	**388,957**	537,383
Exchange loss / (gain) arising on translation of foreign currencies	**978,179**	(151,089)

4 Employee information

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

By activity	**2003**	2002
Engineering and servicing	**50**	66
Selling and distribution	**13**	16
Administration	**20**	20
	83	102

5 Directors' emoluments

	2003	2002
	£	£
Aggregate emoluments	**51,185**	74,462
Company pension contributions to money purchase schemes	**1,407**	5,440

Retirement benefits are accruing to one (2002: two) directors under defined contribution pension schemes.

6 Interest payable

	2003	2002
	£	£
Interest payable to group undertakings	**441,270**	371,173
Bank interest payable	**33,440**	36,861
Other interest payable	**77,071**	-
	551,781	408,034

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

	2003	2002
	£	£
Current tax		
UK corporation tax at 30% (2002: 30%)	**(18,317)**	336,138
Adjustment in respect of prior years	**(94,716)**	(19,288)
Total current tax	**(113,033)**	316,850
Deferred tax		
Origination and reversal of timing differences	**29,853**	(259,248)
Total deferred tax	**29,853**	(259,248)
Tax on profit on ordinary activities	**(83,180)**	57,602

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

	2003	2002
	£	£
Profit on ordinary activities before tax	**128,847**	245,420
Profit on ordinary activities multiplied by the standard rate in the UK 30%	**38,654**	73,626
Expenses not deductible for tax purposes	**29,540**	3,264
Accelerated capital allowances	**(76,217)**	259,248
Other timing differences	**(10,294)**	-
Adjustments to tax charge in respect of previous period	**(94,716)**	(19,288)
	(113,033)	316,850

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 £206,733 (2002: £136,157)

9 Tangible fixed assets

Group and Company

	Leasehold improvements £	Equipment and motor vehicles	Furniture, fixtures and fittings £	Total £
Cost				
At 1 July 2002	1,380,410	2,336,940	578,070	4,295,420
Additions	81,265	60,705	23,547	165,517
Transfers	-	14,376	(14,376)	-
Disposals	-	(192,138)	-	(192,138)
At 30 June 2003	**1,461,675**	**2,219,883**	**587,241**	**4,268,799**
Accumulated depreciation				
At 1 July 2002	809,108	1,917,543	505,893	3,232,544
Charge for the year	111,568	290,248	26,950	428,766
Transfers	194,385	3,662	(3,662)	194,385
Disposals	-	(156,132)	-	(156,132)
At 30 June 2003	**1,115,061**	**2,055,321**	**529,181**	**3,699,563**
Net book value				
At 30 June 2003	**346,614**	**164,562**	**58,060**	**569,236**
At 30 June 2002	571,302	419,397	72,177	1,062,876

10 Investments

Company

	£
Cost and net book value at 30 June 2002 and 30 June 2003	**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

	2003 £	2002 £
Raw materials and consumables	**8,486,538**	10,271,806

12 Debtors – Amounts falling due within one year

	Group		Company	
	2003 £	2002 £	**2003 £**	2002 £
Trade debtors	**1,119,359**	972,072	**1,119,359**	972,072
Amounts owed by group undertakings	**3,022,647**	3,754,201	**5,092,252**	5,757,271
Other debtors and prepayments	**93,997**	1,067,848	**93,997**	1,067,848
Corporation tax	**135,417**	687	**135,417**	-
Deferred tax (see note 14)	**257,990**	287,843	**257,990**	287,843
	4,629,410	6,082,651	**6,699,015**	8,085,034

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

13 Creditors – Amounts falling due within one year

	Group		Company	
	2003 £	2002 £	**2003 £**	2002 £
Trade creditors	**198,825**	982	**198,825**	982
Amounts owed to group undertakings	**10,263,908**	10,771,722	**12,477,695**	12,974,760
Corporation tax payable	-	185,535	-	185,535
Other taxation and social security	**172,216**	446,869	**172,216**	446,869
Accruals and other creditors	**928,384**	1,527,763	**917,332**	1,430,327
Deferred income	**357,555**	318,122	**357,555**	318,122
	11,920,888	13,250,993	**14,123,623**	15,356,595

Included with amounts owed to group undertakings are loans from the company's parent company amounting to £7,551,591 (2002: £9,013,571). 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 2002	-	900,000	900,000
Utilised in year	-	(222,284)	(222,284)
Transfer to fixed assets	-	(194,385)	(194,385)
Charged to profit and loss account	-	260,000	260,000
At 30 June 2003	**-**	**743,331**	**743,331**

Other provisions include amounts of £743,331 (2002: £500,000) 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 in 2002 represented 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. In the current year this provision has been included within fixed assets.

Deferred tax asset provided at year-end comprises:

	2003	2002
	£	£
Accelerated capital allowances	**(227,990)**	(237,876)
Other short term timing differences	**(30,000)**	(49,967)
	(257,990)	(287,843)

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

15 Called-up share capital

	Group and Company	
	2003	2002
	£	£
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 2002	-	-	4,513,313	4,395,477
Capital contribution	7,500,000	7,500,000	-	-
Profit for the financial year	-	-	212,027	206,733
As at 30 June 2003	**7,500,000**	**7,500,000**	**4,725,340**	**4,602,210**

17 Reconciliation of movements in group shareholders' funds

	2003 £	2002 £
Profit for the financial year	**212,027**	187,818
Capital contribution	**7,500,000**	-
Opening shareholders' funds	**4,699,813**	4,511,995
Closing shareholders' funds	**12,411,840**	4,699,813

18 Operating leases

At 30 June 2003 the group and the company had annual commitments under non-cancellable operating leases as follows:

	2003 Land and buildings £	2002 Land and buildings £
Operating leases expire:		
Between two and five years	**307,320**	307,320
After five years	**65,216**	65,216
	372,536	372,536

19 Pension scheme

The group and the company operates a number of defined contribution pension schemes during the year. 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 £197,723 (2002: £233,951). There were no outstanding contributions at the year-end (2002: £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 2003. Copies of the group financial statements may be obtained from 160 Rio Robles, PO Box 49055, San Jose, CA95161-9055.