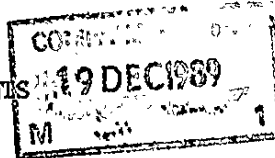


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KLA INSTRUMENTS LIMITED

DIRECTOR PORT AND ACCOUNTS

30 JUNE 1989



KLA INSTRUMENTS LIMITED

DIRECTORS' REPORT

The directors present their report and statement of accounts for the year ended 30 June 1989.

PRINCIPAL ACTIVITIES

The principal activity of the Company continued to be that of providing equipment installation, warranty and repairs service to customers of group companies and sales promotion for group companies.

In addition to its service activity, the Company made a limited number of resale transactions, the most significant of which were sales of products manufactured by other group companies. This type of transaction is expected to recur occasionally in the future.

REVIEW OF THE BUSINESS

The Company had another successful year and recorded its highest ever profits. A large part of the improvement over the previous year was royalty income resulting from the Company's agreements with group companies in Israel and the USA. Also, currency movements had a favourable effect on the Company's transactions this year in contrast to the unfavourable effect of the previous year.

Turnover tripled during the year but this increase reflects a change in the structure of some sales of equipment manufactured by the parent company rather than an increase in the level of business. In fact, the level of business overall was static and operating profits were similarly unchanged from the previous year.

The outlook for the semiconductor industry in the UK is uncertain at present. Nonetheless, with increased royalty income expected in the coming year, it is hoped that next year's result will not be far short of this year's record.

RESULTS AND DIVIDENDS

The profit after taxation for the year ended 30 June 1989 amounted to £168,917 (1988: £107,864) and has been added to reserves. The directors do not recommend the payment of a dividend (1988 - Nil).

DIRECTORS AND THEIR INTERESTS

The directors of the company who held office during the year were:

K Levy
R Anderson
R Conn

None of the directors of the Company had at any time in the period any direct beneficial interest in the share capital of the Company.

KLA INSTRUMENTS LIMITED

AUDITORS

The auditors, Price Waterhouse, have indicated their willingness to continue in office and a resolution proposing their re-election will be put at the Annual General Meeting.

By Order of the Board



R Anderson
Secretary

31 October 1989

35 St Thomas Street
London SE1

Price Waterhouse



AUDITORS' REPORT TO THE MEMBERS OF
KLA INSTRUMENTS LIMITED

We have audited the accounts on pages 4 to 11 in accordance with approved Auditing Standards.

In our opinion the accounts give a true and fair view of the state of the affairs of the Company at 30 June 1989 and of its profit and the source and application of funds for the year then ended and comply with the Companies Act 1985.

Price Waterhouse
Chartered Accountants

31 October 1989



Offices at Aberdeen, Birmingham, Bristol, Cardiff, Edinburgh, Glasgow, Leeds, Leicester, Liverpool, London, Manchester, Middlesbrough, Newcastle, Nottingham, Redhill, St. Albans, Southampton and Windsor.
The partnership's principal place of business is at Southwark Towers, 32 London Bridge Street, London SE1 9SY where a list of the partners' names is available for inspection.
The firm is authorised by the Institute of Chartered Accountants in England and Wales to carry on investment business.

KLA INSTRUMENTS LIMITED

PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 30 JUNE 1989

	<u>1989</u> £	<u>1988</u> £
TURNOVER (Note 1)	2,930,147	1,071,201
Administrative and other expenses	2,733,377	874,971
	<hr/>	<hr/>
OPERATING PROFIT	196,770	196,230
Gain/(loss) arising on translation of foreign currencies	20,090	(21,564)
Interest receivable and net royalty income (Note 3)	52,397	13,642
Interest payable	(12,737)	-
	<hr/>	<hr/>
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION (Note 2)	256,520	188,308
Taxation on profit on ordinary activities (Note 4)	(87,603)	(80,444)
	<hr/>	<hr/>
PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION	168,917	107,864
PROFIT BROUGHT FORWARD AT 1 JULY	304,739	196,875
	<hr/>	<hr/>
RETAINED PROFIT CARRIED FORWARD AT 30 JUNE	£473,656	£304,739
	<hr/>	<hr/>

The notes on pages 7 to 11 form part of these accounts.


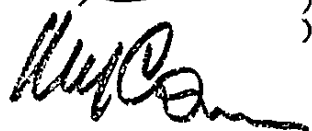
FLA INSTRUMENTS LIMITED

BALANCE SHEET - 30 JUNE 1989

	1989	1988
	£	£
FIXED ASSETS		
Tangible assets (Note 7)	88,530	99,047
CURRENT ASSETS		
Intangible asset (Note 6)	160,979	141,563
Stock	539,689	469,246
Trade debtors	178,837	100,360
Amounts owed by group companies	608,092	256,554
Other debtors and prepayments	174,650	14,230
Cash at bank	138,686	8,752
	1,800,933	990,705
CREDITORS:(amounts falling due within one year)		
Bank overdrafts	286,209	-
Amounts owed to group companies	416,646	228,702
Trade creditors	17,293	17,256
Taxation and social security	187,736	174,181
Accruals	112,761	72,067
Deferred revenue	229,391	144,950
	1,250,036	637,156
NET CURRENT ASSETS	550,897	353,549
TOTAL ASSETS LESS CURRENT LIABILITIES	£639,427	£452,596
CREDITORS:(amounts falling due after more than one year)		
Amounts owed to group company	160,979	141,563
PROVISIONS FOR LIABILITIES AND CHARGES		
Deferred taxation (Note 5)	4,692	6,194
CAPITAL AND RESERVES		
Called up share capital (Note 8)	100	100
Profit and loss account	473,656	304,739
	£639,427	£452,596

The notes on pages 7 to 11 form part of these accounts.

The accounts of pages 4 to 11 were approved by the board of directors on 31 October 1989 and were signed on its behalf by:



) DIRECTORS

KLA INSTRUMENTS LIMITED

STATEMENT OF SOURCE AND APPLICATION OF FUNDS
FOR THE YEAR ENDED 30 JUNE 1989

	<u>1989</u> £	<u>1988</u> £
SOURCE OF FUNDS		
Profit on ordinary activities before taxation	256,520	188,308
Adjustments for items not involving the movement of funds:		
Depreciation	38,439	28,472
Profit on sale of fixed assets	(939)	(3,600)
	<u>294,020</u>	<u>213,180</u>
Other sources of funds		
Proceeds on sale of assets	<u>5,300</u> 299,320	<u>10,450</u> 223,630
APPLICATION OF FUNDS		
Taxation paid	(80,198)	-
Amounts paid to group companies	-	(378,627)
Purchase of fixed assets	<u>(32,283)</u>	<u>(57,163)</u>
	<u>£186,839</u>	<u>£(212,160)</u>
MOVEMENT IN WORKING CAPITAL:		
Increase in stock	70,443	166,933
Increase/(decrease) in debtors	238,897	(21,740)
(Increase)/decrease in creditors	(129,820)	68,546
Increase/(decrease) in balances owed by group companies	163,594	(388,696)
Movement in net liquid funds:		
Increase/(decrease) in cash at bank	129,934	(37,203)
Bank overdraft	<u>(286,209)</u>	<u>-</u>
	<u>£186,839</u>	<u>£(212,160)</u>

The notes on pages 7 to 11 form
part of these accounts.

KLA INSTRUMENTS LIMITED

NOTES TO THE ACCOUNTS - 30 JUNE 1989

1 ACCOUNTING POLICIES

The accounts have been prepared under the historical cost convention. The principal accounting policies are as follows:

(1) Turnover

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

(2) Deferred taxation

Deferred corporation tax is provided for only to the extent that it is probable that a liability or asset will crystallize in the foreseeable future.

(3) Depreciation

Depreciation is provided on a straight line basis at the rate of:

Leasehold improvements	period of lease
Equipment and motor vehicles	20%
Furniture, fixtures and fittings	20%

(4) Foreign currency translation

All assets and liabilities are translated into sterling at 30 June exchange rates. Profit and loss amounts have been translated at average rates. Exchange gains or losses are included in the profit and loss account.

(5) Stocks

Stocks are valued at the lower of cost and net realisable value.

(6) Deferred revenue

Income earned from warranty services is recognised over the period of the warranty obligation.

KLA INSTRUMENTS LIMITED

NOTES TO THE ACCOUNTS - 30 JUNE 1989 (CONTINUED)

2 PROFIT ON ORDINARY ACTIVITY BEFORE TAXATION

Profit on ordinary activities before taxation is stated after charging:

	<u>1989</u> £	<u>1988</u> £
Wages and salaries (including Directors' remuneration)	517,096	425,775
Social security costs	45,720	32,189
Other pension costs	15,626	13,040
Auditors' remuneration	8,000	6,000
Depreciation	38,439	28,472
Operating leases	33,278	19,685

Directors' remuneration

The remuneration paid to the directors of KLA Instruments Limited was:

	<u>1989</u> £	<u>1988</u> £
Fees	-	-
Other emoluments (including pension contributions and benefits in kind)	73,010	75,340
Pensions paid to former directors	-	-
Compensation for loss of office	-	-
	<u>£73,010</u>	<u>£75,340</u>

Fees and other emoluments disclosed above (excluding pension contributions) include amounts paid to:

The Chairman	£ -	£ -
The highest paid director	<u>£70,456</u>	<u>£73,018</u>

None of the other directors received any fees or other emoluments in respect of their services to the Company during the year (1988: Nil). The average number of persons employed during the year was 17 (1988: 15).

The number of senior employees of KLA Instruments Limited, other than directors, who received remuneration (excluding pension contributions) in the following ranges was:

£30,001 - £35,000	2	-
£35,001 - £40,000	1	1
£45,001 - £50,000	1	1
£50,001 - £55,000	1	-

KLA INSTRUMENTS LIMITED

NOTES TO THE ACCOUNTS - 30 JUNE 1989 (CONTINUED)

3 INTEREST RECEIVABLE AND SIMILAR INCOME

	<u>1989</u>	<u>1988</u>
	£	£
Interest receivable	6,102	1,799
Royalty income	508,765	153,495
Royalty expenses	(462,470)	(141,652)
	<u>£52,397</u>	<u>£13,642</u>

4 TAX ON PROFIT ON ORDINARY ACTIVITIES

	<u>1989</u>	<u>1988</u>
	£	£
The charge is based upon the profit on ordinary activities before taxation and comprises:		
United Kingdom Corporation tax at 35% (1988 - 35%)		
- current	89,105	79,541
- deferred	(1,502)	903
	<u>£87,603</u>	<u>£80,444</u>

5 DEFERRED TAXATION

	<u>1989</u>	<u>1988</u>
	Amount provided and potential liability £	Amount provided and potential liability £
Deferred corporation tax in respect of:		
Capital allowances	<u>£4,692</u>	<u>£6,194</u>

6 INTANGIBLE ASSET

The company paid US\$ 250,000 during April 1987 for an option to purchase the 'Resulting Technology' which it is expected will arise from the research and development into certain projects being undertaken by KLA Development No.4 Limited, a limited partnership registered in California, United States. This option is exercisable by the company within 13 months and 30 days of October 31, 1988. The movement during the year is due to the differences in exchange rates which arise when translating the purchase price at the closing rate on 30 June 1989, compared with 30 June 1988.

The Company's parent company, KLA Instruments Inc, has resolved to take such steps in relation to KLA Instruments Limited as may seem desirable from time to time in order to free KLA Instruments Limited from the obligation to make provision for any changes to the underlying value of the asset.

KLA INSTRUMENTS LIMITED

NOTES TO THE ACCOUNTS - 30 JUNE 1989 (CONTINUED)

7 TANGIBLE ASSETS

	<u>Leasehold Improvements</u>	<u>Equipment and Motor vehicles</u>	<u>Furniture, Fixtures and Fittings</u>	<u>Total</u>
	£	£	£	£
<u>Cost</u>				
At 1 July 1988	21,194	123,529	24,308	169,031
Additions	-	31,423	975	32,398
Disposals	-	(15,855)	-	(15,855)
Transfers	-	17,695	(17,695)	-
At 30 June 1989	21,194	156,792	7,588	185,574
<u>Depreciation</u>				
At 1 July 1988	14,985	44,942	10,057	69,984
Charge for the year	4,239	32,777	1,423	38,439
Disposals	-	(11,379)	-	(11,379)
Transfers	-	6,952	(6,952)	-
At 30 June 1989	19,224	73,292	4,528	97,044
<u>Net book value</u>				
At 30 June 1989	£1,970	£83,500	£3,060	£88,530
At 30 June 1988	£6,209	£78,587	£14,251	£99,047

8 CALLED UP SHARE CAPITAL

	<u>1989</u>	<u>1988</u>
	£	£
Authorised 1,000 shares of £1 each	1,000	1,000
Allotted and fully paid 100 shares of £1 each	100	100

9 ULTIMATE HOLDING COMPANY

The ultimate holding company is KLA Instruments Corporation, incorporated in Delaware, United States of America.

KLA INSTRUMENTS LIMITED

NOTES TO THE ACCOUNTS - 30 JUNE 1989 (CONTINUED)

10 CAPITAL COMMITMENTS

	<u>1989</u>	<u>1988</u>
Capital expenditure that has been contracted for but has not been provided for in the financial statements.	£ <u>N11</u>	£ <u>N11</u>
Capital expenditure that has been authorised by the directors but has not yet been contracted for.	£ <u>N11</u>	£ <u>N11</u>