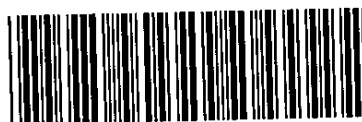


Registered Number 1560324

KLA-Tencor Limited
Annual Report
for the year ended 30 June 2008

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KLA-Tencor Limited

Annual report for the year ended 30 June 2008

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Directors' report for the year ended 30 June 2008

The directors present their annual report and the audited financial statements of the company for the year ended 30 June 2008.

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.

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 £2,554,454 for the year (2007: £676,629) and sales of £39,353,418 (2007: £43,469,828). The company had cash of £6,122,657 at 30 June 2008 (2007: £6,862,966).

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 linewidth 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 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 for the servicing of KLA-Tencor tools. Our staff are trained and certified in the servicing of KLA-Tencor tools and yield management solutions, ensuring world class service offerings.

KLA-Tencor believes that continued and timely development of new products and enhancements to existing products are necessary to maintain it's 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 :

- 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
-

Directors' report for the year ended 30 June 2008 (continued)**Principal risks and uncertainties (continued)**

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.

Key Performance Indicators ("KPIs")

Given the straightforward nature of the business, the company's directors are of the opinion that analysis using KPIs is not necessary for an understanding of the development, performance or position of the business.

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 (2007:£nil).

Directors

The directors who held office during the year and up to the date of signing of the financial statements are given below:

J Titingier (resigned 4 October 2007)
B Martin (appointed 4 October 2007)
V A Kirloskar (appointed 1 April 2008)

Financial risk management

The commissionaire status of the company means that the majority of financial risks including, but not limited to, debt management risk, liquidity risk, price risk, interest rate risk and credit risk, are all managed by the parent company.

Statement of 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). The financial statements are required by law to 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 those financial statements, the directors are required to:

- Select suitable accounting policies and then apply them consistently.
- Make judgements and 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, in which case there should be supporting assumptions or qualifications as necessary.

The directors confirm that they have complied with the above requirements in preparing the financial statements.

Directors' report for the year ended 30 June 2008 (continued)

Statement of directors' responsibilities (continued)

The directors are responsible for keeping proper accounting records that 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 1985. 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.

Qualifying third party indemnity provisions


At the date of approval of the financial statements a qualifying third party indemnity provision was in place for the directors.

Statement of disclosure to auditor

In the case of each director in office at the date the directors' report is approved.

- (a) so far as the director is aware, there is no relevant audit information of which the company's auditors are unaware; and
- (b) he has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the company's auditors are aware of that information.

On behalf of the Board



B Martin
Director

Independent auditors report to the members of KLA-Tencor Limited

We have audited the financial statements of KLA Tencor Limited for the year ended 30 June 2008 which comprise the profit and loss account, balance sheet, and the related notes. These financial statements have been prepared under the accounting policies set out therein.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) 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 International Standards on Auditing (UK and Ireland). 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 into 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 whether in our opinion the information given in the Directors' Report is consistent with the financial statements.

In addition we report to you if, in our opinion, 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 other transactions is not disclosed.

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) 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 judgments 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.

**Independent auditors report to the members of
KLA-Tencor Limited (continued)**

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the company's affairs as at 30 June 2008 and of its profit for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the financial statements.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
Reading

26 November 2009

Profit and loss account for the year ended 30 June 2008

	Note	2008 £	2007 £
Turnover	2	39,353,418	43,469,828
Cost of sales		(35,856,970)	(39,222,722)
Gross profit		3,496,448	4,247,106
Administrative expenses		(1,093,924)	(3,713,542)
Operating profit	3	2,402,524	533,564
Interest receivable and similar income – bank interest		159,880	145,444
Interest payable and similar charges	6	(7,950)	(2,379)
Profit on ordinary activities before taxation		2,554,454	676,629
Tax on profit on ordinary activities	7	(844,658)	(83,378)
Profit for the financial year	17	1,709,796	593,251

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 sheet as at 30 June 2008

	Note	2008 £	2007 £
Fixed assets			
Tangible assets	8	268,721	202,622
Investments	9	44,674	44,674
		313,395	247,296
Current assets			
Stock	10	10,889,568	10,208,326
Debtors	11	6,072,086	4,488,917
Cash at bank and in hand		6,122,657	6,862,966
		23,084,311	21,560,209
Creditors – Amounts falling due within one year	12	(6,891,507)	(6,092,523)
Net current assets		16,192,804	15,467,686
Total assets less current liabilities		16,506,199	15,714,982
Creditors: Amounts falling due after more than one year	13	(75,159)	(33,350)
Provisions for liabilities and charges	15	(375,603)	(480,069)
Net assets		16,055,437	15,201,563
Capital and reserves			
Called-up share capital	16	186,500	186,500
Capital contribution	17	7,500,000	7,500,000
Profit and loss account	17	8,368,937	7,515,063
Total shareholders' funds	18	16,055,437	15,201,563

The financial statements on pages 6 to 22 were approved by the board of directors on 17 November 2009 and were signed on its behalf by:



B Martin
Director

Notes to the financial statements for the year ended 30 June 2008**1 Accounting policies**

These financial statements have been prepared in accordance with the Companies Act 1985 and applicable accounting standards in the United Kingdom. A summary of the more important 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.

Turnover

Turnover represents the total invoice value, excluding value added tax, of sales made during the period. 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 is fixed or determinable
- (iv) The collection of the fees is probable

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

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date, where transactions or events that result in an obligation to pay more tax in future or a right to pay less tax in the future have occurred at the balance sheet date. A deferred tax asset is only recognised when it can be regarded as more likely than not that there will be suitable taxable profit against which to recover carried forward losses and from which the future reversal of underlying timing differences can be deducted. Deferred tax is measured at the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date. Deferred tax is measured on an undiscounted basis.

Notes to the financial statements for the year ended 30 June 2008 (continued)**1 Accounting policies (continued)****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
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.

The company is exempt under section 228A of the Companies Act 1985 from the requirement to prepare consolidated financial statements as it and its subsidiary undertakings are included by full consolidation in the consolidated financial statements of its parent, KLA-Tencor Corporation, which are prepared in a manner equivalent to the requirements of the 7th Directive.

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.

Stock

Stock is valued at the lower of cost and net realisable value. Cost includes all direct costs incurred in bringing the stock to its present location and condition. Provision is made for obsolete, slow moving and defective stock.

Finance and operating leases

Costs in respect of operating leases are charged on a straight-line basis over the lease term to the profit and loss account.

Leasing arrangements which transfer to the company substantially all the benefits and risks of ownership of an asset are treated as if the asset had been purchased outright. The assets are included in fixed assets and the capital element of the leasing commitments is shown as obligations under finance leases. The lease rentals are treated as consisting of capital and interest elements. The capital element is applied to reduce the outstanding obligations and the interest element is charged against profit in proportion to the reducing capital element outstanding. Assets held under finance leases are depreciated over the shorter of the lease terms and the useful lives of the equivalent owned assets.

Notes to the financial statements for the year ended 30 June 2008 (continued)**1 Accounting policies (continued)****Pension costs**

Contributions in respect of the company's defined contribution pension schemes are charged to the profit and loss account as incurred. The assets of the scheme are held in independently administered funds.

Related parties

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 company and other group companies 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.

Vacant property 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.

Share based payment

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 units under these plans. The fair value of the employee services received in exchange for these awards is recognised as an expense, with a corresponding increase in profit and loss reserve (representing a capital contribution by the parent). The total amount to be expensed over the vesting period is determined by reference to the fair value of the awards granted. At each balance sheet date, the company revises its estimates of the awards that are expected to vest. It recognises the impact of the revision to original estimates, if any, in the income statement, with a corresponding adjustment to the profit and loss reserve.

In accordance with FRS 20, fair value calculations have only been made in respect of awards made after 7 November 2002 that remain unvested at 1 January 2006. For awards that vested prior to 31 December 2005, no provision has been made as the ultimate parent company does not intend to make a recharge.

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 relevant capital contribution. If the amount of the intercompany charge exceeds the original capital contribution, that excess is treated as a distribution from the company to its parent.

Notes to the financial statements for the year ended 30 June 2008 (continued)

2 Turnover

The geographical analysis of turnover by destination is as follows:

	2008 £	2007 £
United Kingdom	2,863,221	4,088,788
Rest of Europe	17,239,776	18,604,269
United States of America	18,141,895	19,288,965
Asia	1,108,526	1,487,806
	39,353,418	43,469,828

3 Operating profit

	2008 £	2007 £
Operating profit is stated after charging / (crediting):		
Wages and salaries (including directors' remuneration)	4,195,820	2,695,858
Social security costs	554,118	312,153
Share based payment – fair value of employee services (note 21)	119,032	408,581
Pension costs (note 20)	178,647	164,639
Staff costs	5,047,617	3,581,231
Services provided by the company's auditor		
- Fees payable for the audit	56,700	60,000
- Fees payable for other services – tax compliance	39,876	57,330
Depreciation of tangible owned fixed assets	79,426	73,806
Depreciation of fixed assets held under finance leases	56,000	82,594
Loss on disposal of tangible fixed assets	8,850	6,528
Operating lease charges – other leases	336,511	255,972
Operating lease charges – plant and machinery	-	22,123
Exchange (gain)/loss arising on translation of foreign currencies	(2,088,610)	353,564

Notes to the financial statements for the year ended 30 June 2008 (continued)

4 Employee information

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

By activity	2008	2007
Engineering and servicing	30	31
Selling and distribution	9	9
Administration	10	10
	49	50

5 Directors' emoluments

	2008 £	2007 £
Aggregate emoluments	-	-
Company pension contributions to money purchase schemes	-	-

Retirement benefits are accruing to nil (2007: nil) directors under defined contribution pension schemes.

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.

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.

6 Interest payable and similar charges

	2008 £	2007 £
Other interest payable	7,950	2,379

Notes to the financial statements for the year ended 30 June 2008 (continued)

7 Tax on profit on ordinary activities

	2008 £	2007 £
Current tax		
UK corporation tax at 29.5% (2007: 30%)	718,086	73,560
Double tax relief	-	(4,090)
Overseas tax	-	(15,389)
Adjustment in respect of prior years	108,480	17,155
Total current tax	826,566	71,236
Deferred tax		
Origination and reversal of timing differences (note 15)	18,092	12,142
Total deferred tax	18,092	12,142
Tax charge on profit on ordinary activities	844,658	83,378

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

	2008 £	2007 £
Profit on ordinary activities before tax	2,554,454	676,629
Profit on ordinary activities multiplied by the standard rate in the UK of 29.5% (2007: 30%)	753,564	202,989
Effects of:		
Expenses not deductible for tax purposes	207,269	3,120
Share based payments	(223,686)	(106,530)
Accelerated capital allowances	(19,061)	(26,019)
Overseas tax differences	-	(19,479)
Adjustments to tax charge in respect of previous period	108,480	17,155
Current tax charge for the year	826,566	71,236

Factors that may affect future tax charges:

Based on current capital investment plans, the company expects to continue to be able to claim capital allowances in excess of depreciation in future years at a similar level to the current year.

Notes to the financial statements for the year ended 30 June 2008 (continued)

8 Tangible fixed assets

	Leasehold improvements £	Equipment and motor vehicles £	Furniture, fixtures and fittings £	Total £
Cost				
At 1 July 2007	390,189	1,189,977	407,699	1,987,865
Additions	25,448	182,043	2,884	210,375
Disposals	(368,765)	(512,575)	(390,564)	(1,271,904)
At 30 June 2008	46,872	859,445	20,019	926,336
Accumulated depreciation				
At 1 July 2007	369,806	1,017,509	397,928	1,785,243
Charge for the year	7,686	125,818	1,922	135,426
Disposals	(363,414)	(512,378)	(387,262)	(1,263,054)
At 30 June 2008	14,078	630,949	12,588	657,615
Net book value				
At 30 June 2008	32,794	228,496	7,431	268,721
At 30 June 2007	20,383	172,468	9,771	202,622

The net book value of fixed assets includes an amount of £187,000 (2007: £82,042) within equipment and motor vehicles in respect of assets held under finance leases.

9 Investments

	£
At 1 July 2007	44,674
Additions	-
At 30 June 2008	44,674

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

Subsidiary undertaking	Nature of business	% Ordinary Shares and voting rights	Country of registration
KLA-Tencor (Service) Ltd	Non-trading	100	United Kingdom
KLA-Tencor Ireland Ltd	Trading	100	Ireland

Notes to the financial statements for the year ended 30 June 2008 (continued)

9 Investments (continued)

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

Subsidiary undertaking	Period ended	Profit / (loss) for the period	Capital and reserves
KLA-Tencor (Service) Ltd	30 June 2007	-	£127,836
KLA-Tencor Ireland Ltd	30 June 2007	£1,302,182	£1,772,695

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

10 Stocks

	2008 £	2007 £
Raw materials and consumables	10,889,568	10,208,326

11 Debtors – Amounts falling due within one year

	2008 £	2007 £
Trade debtors	1,063,113	558,223
Amounts owed by group undertakings	4,548,231	3,425,314
Other debtors and prepayments	384,215	410,761
Deferred tax (see note 15)	76,527	94,619
	6,072,086	4,488,917

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

Notes to the financial statements for the year ended 30 June 2008 (continued)

12 Creditors – Amounts falling due within one year

	2008 £	2007 £
Trade creditors	182,908	285,264
Amounts owed to group undertakings	4,869,094	4,202,098
Other taxation and social security	88,342	300,265
Accruals and other creditors	1,015,193	1,190,196
Finance lease obligations	94,213	49,754
Corporation tax	631,025	6,537
Deferred income	10,732	58,409
	6,891,507	6,092,523

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

13 Creditors – Amounts falling due after more than one year

	2008 £	2007 £
Finance lease obligations	75,159	33,350

14 Finance Leases

Future minimum payments under finance leases are as follows:

	2008 £	2007 £
Within one year	94,213	49,754
In more than one year, but not more than five years	75,159	33,350
	169,372	83,104

15 Provisions for liabilities and charges

	Dilapidations provision £	Onerous lease provision £	Total £
At 1 July 2007	102,528	377,541	480,069
Utilised in year	-	(104,466)	(104,466)
At 30 June 2008	102,528	273,075	375,603

Notes to the financial statements for the year ended 30 June 2008 (continued)

15 Provisions for liabilities and charges (continued)

The onerous lease provision has been made in respect of certain vacant leasehold properties held by the company. 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 dilapidations provision has also been made in respect of certain vacant leasehold properties held by the company. 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:

	2008 £	2007 £
Accelerated capital allowances	76,527	94,619

There is no deferred tax liability. The deferred tax asset has been recognised within debtors (see note 12).

	2008 £	2007 £
1 July	94,619	106,761
Deferred tax in the profit and loss account (note 7)	(18,092)	(12,142)
30 June 2008	76,527	94,619

No deferred tax asset has been recognised in respect of the share based payments on the basis that it is not sufficiently certain that the asset will crystallise. The unrecognised deferred tax asset is £nil (2007: £231,653).

Notes to the financial statements for the year ended 30 June 2008 (continued)

16 Called-up share capital

	2008 £	2007 £
Authorised		
500,000 (2007: 500,000) ordinary shares of £1 each	500,000	500,000
Allotted, called-up, and fully paid		
186,500 (2007: 186,500) ordinary shares of £1 each	186,500	186,500

17 Reserves

	Capital contribution £	Profit and loss reserve £
At 1 July 2007	7,500,000	7,515,063
Profit for the financial year	-	1,709,796
Share based payment: services provided	-	119,032
Share based payment: recharge from ultimate parent	-	(119,032)
Share based payment: distribution	-	(855,922)
At 30 June 2008	7,500,000	8,368,937

18 Reconciliation of movements in shareholders' funds

	2008 £	2007 £
Profit for the year	1,709,796	593,251
Share based payment: services provided	119,032	408,581
Share based payment: recharge from ultimate parent	(119,032)	(408,581)
Share based payment: distribution	(855,922)	(355,102)
Net increase in equity shareholders' funds	853,874	238,149
Opening shareholders' funds	15,201,563	14,963,414
Closing shareholders' funds	16,055,437	15,201,563

Notes to the financial statements for the year ended 30 June 2007 (continued)

19 Financial commitments

At 30 June 2008 the company had annual commitments under non-cancellable operating leases as follows:

	2008 Land and buildings £	Plant and machinery £	2007 Land and buildings £	Plant and machinery £
Operating leases expire:				
Less than one year	6,381	-	38,797	14,226
Between two and five years	38,400	-	63,924	-
After five years	158,122	-	78,120	-
	202,903	-	180,841	14,226

20 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 group in independently administered funds. The pension cost charge includes contributions payable by the company to these funds and amounted to £178,647 (2007: £164,639). There were no outstanding contributions at the year-end (2007: £Nil).

21 Share based payments

All Employee Share-option Plan

For the past several years until 30 June 2006, share options (except for the retroactively priced options which were granted primarily prior to fiscal year ended 30 June 2002) were generally granted at the market price of the KLA-Tencor Corporation common stock on the date of grant, with a vesting period of five years and an exercise period not to exceed seven years (ten years for options granted prior to 1 July 2005) from the date of issuance. Restricted stock units may be granted with varying criteria such as time-based or performance-based vesting. Substantially all of the Company's employees that meet established performance goals and qualify as key employees participate in its main equity incentive plan. Since 1 July 2006, the Company has granted only restricted stock units under its equity incentive program, except for options granted to non-employee directors as part of their regular compensation package for service through 30 June 2007.

On 18 October 2004, stockholders approved the 2004 Equity Incentive Plan (the "2004 Plan") which provides for the grant of options to purchase shares of common stock, stock appreciation rights, restricted stock, performance shares, performance units and deferred stock units to employees, consultants and members of the Board of Directors. Since the adoption of the 2004 Plan, no further grants are permitted under the 1982 Stock Option Plan or 2000 Non-Statutory Stock Option Plan.

The expense recognised for share-based payments in respect of employee services received during the year to 30 June 2008 is £119,032 (2007: £408,581). The portion of that expense arising from restricted share units is £86,155 (2007: £149,706).

Notes to the financial statements for the year ended 30 June 2008 (continued)

21 Share based payments (continued)

Stock Options

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

	2008 No.	2008 WAEP	2007 (restated) No.	2007 (restated) WAEP
Outstanding as at 1 July	154,429	£21.86	167,755	£23.54
Granted	-	N/A		N/A
Forfeited	(21,667)	£23.53	(1,306)	£24.36
Exercised	(38,249)	£19.76	(12,020)	£20.18
Expired	-	N/A	-	N/A
Outstanding at 30 June	<u>94,513</u>	£21.85	<u>154,429</u>	£21.86
Exercisable at 30 June	74,735	£21.66	93,074	£21.76

The disclosures in respect of the year ended 30 June 2007 have been restated to reflect the corrected options records held. This has no impact on the charge made for this period.

Included within this balance are options over 48,667 (2007: 91,777) shares that have not been recognised in accordance with FRS 20 as the options were granted on or before 7 November 2002. These options have not been subsequently modified and therefore do not need to be accounted for in accordance with FRS 20.

The weighted average share price at the date of exercise for the options exercised is £28.34 (2007: £28.00).

For the share options outstanding as at 30 June 2008, the weighted average remaining contractual life is 3.1 years (2007: 6.9 years).

No options were granted in the years ended 30 June 2008 and 2007. The range of exercise prices for options outstanding at the end of the year was £17.37-£29.12 (2007: £18.75-£31.41).

Notes to the financial statements for the year ended 30 June 2008 (continued)

21 Share based payments (continued)

Restricted Stock Units (RSUs)

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

	2008 No.	2008 WAEP	2007 No.	2007 WAEP
Outstanding as at 1 July	21,171	\$0.00	-	N/A
Granted during the year	18,368	\$0.00	21,745	\$0.00
Forfeited during the year	(7,550)	\$0.00	(574)	\$0.00
Exercised	-	N/A	-	N/A
Expired during the year	-	N/A	-	N/A
Outstanding at 30 June ¹	31,989	\$0.00	21,171	\$0.00
Exercisable at 30 June	-	N/A	-	N/A

There are no RSUs over shares included within this balance that were granted on or before 7 November 2002.

No RSUs have been exercised to date so the weighted average share price at the date of exercise for the awards exercised is £nil.

For the restricted stock units outstanding as at 30 June 2008, the weighted average remaining contractual life is 2.8 years (2007: 3.2 years).

The weighted average fair value of RSUs granted during the year was £22.61 (2007: £23.01). The exercise prices for all awards outstanding at the end of the year is nil (2007: nil).

Valuation Assumptions

The Company estimates the fair value of stock options using a Black-Scholes valuation model. The fair value of each option grant is estimated on the date of grant using the Black-Scholes option valuation model and the straight-line attribution approach with the following weighted-average assumptions:

	2008	2007
Expected stock price volatility	30%	34%
Risk free interest rate	3.92%	4.90%
Dividend yield	3.22%	1.10%
Expected life of options (in years)	4.0	4.6
Weighted average share price	£24.58	£23.01

The Black-Scholes option-pricing model was developed for use in estimating the fair value of short-lived exchange traded options that have no vesting restrictions and are fully transferable. In addition, option-pricing models require the input of highly subjective assumptions, including the option's expected life and the price volatility of the underlying stock. The expected stock price volatility assumption was determined using the implied volatility of the Company's common stock. The Company's computation of expected volatility is based on market-based implied volatility from traded

Notes to the financial statements for the year ended 30 June 2008 (continued)**21 Share based payments (continued)**

options on the Company's stock. Previously, the Company used a combination of historical and implied volatility in deriving its expected volatility assumption. The Company determined that implied volatility is more reflective of market conditions and a better indicator of expected volatility than a blended volatility.

There are no cash settled options as at 30 June 2008.

22 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 2008. Copies of the group financial statements may be obtained from 160 Rio Robles, PO Box 49055, San Jose, CA95161-9055.