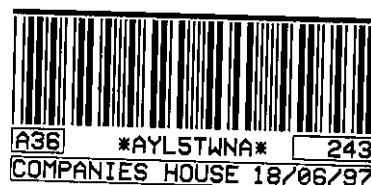


KLA INSTRUMENTS LIMITED

DIRECTORS' REPORT AND ACCOUNTS

30 JUNE 1996

REGISTERED NUMBER: 1560324



KLA INSTRUMENTS LIMITED

DIRECTORS' REPORT FOR THE YEAR ENDED 30 JUNE 1996

The directors present their report and the audited accounts for the year ended 30 June 1996.

PRINCIPAL ACTIVITIES

The products of the KLA group consist of high speed image processing systems for semiconductor manufacturing. The principal activities of the Company continued 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. In addition the Company makes a number of resale transactions, including sales of products manufactured by other group companies.

REVIEW OF THE BUSINESS AND FUTURE DEVELOPMENTS

The Company had another excellent year due to the continuing major investments by its customers in new manufacturing capacity. Sales exceeded, while profits were close to record levels.

The medium-term outlook for the semiconductor industry in the UK remains strong. In particular, two Korean manufacturers have announced plans to build factories on green-field sites. The Company is well-positioned to take advantage of such developments as they happen. For the next financial year, however, a temporary pause in growth is expected and profits are likely to be much reduced.

RESULTS AND DIVIDENDS

The profit after taxation for the year amounted to £599,355 (1995: £603,550). The directors do not recommend payment of a dividend and so this amount has been transferred to reserves.

DIRECTORS AND THEIR INTERESTS

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

K Levy

R M Conn

(Resigned 17 February 1997)

K Schroeder

C Bastoul was appointed as a director of the Company on 17 February 1997.

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

FIXED ASSETS

The movements in fixed assets during the period are shown in note 8 to the accounts.

KLA INSTRUMENTS LIMITED

DIRECTORS' REPORT FOR THE YEAR ENDED 30 JUNE 1996 (CONTINUED)

STATEMENT OF DIRECTORS' RESPONSIBILITIES

Company law requires the directors to prepare accounts for each financial year which 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 accounts, the directors are required to:

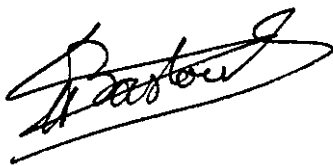
- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the accounts;
- prepare the accounts on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the accounts 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.

AUDITORS

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

By Order of the Board



C Bastoul
DIRECTOR

6 May 1997

Price Waterhouse



AUDITORS' REPORT TO THE MEMBERS OF KLA INSTRUMENTS LIMITED

We have audited the accounts on pages 4 to 13 which have been prepared under the historical cost convention and the accounting policies set out on page 7.

Respective responsibilities of directors and auditors

As described on page 2 the Company's directors are responsible for the preparation of accounts. It is our responsibility to form an independent opinion, based on our audit, on those accounts and to report our opinion to you.

Basis of 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 accounts. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the accounts, 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 accounts 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 accounts.

Opinion

In our opinion the accounts give a true and fair view of the state of the Company's affairs as at 30 June 1996 and of its profit and cash flows for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Price Waterhouse

PRICE WATERHOUSE
Chartered Accountants
and Registered Auditors

6 May 1997

Offices at Aberdeen, Birmingham, Bristol, Cardiff, Edinburgh, Glasgow, Hull, Leeds, Leicester, London, Manchester, Middlesbrough, Newcastle, Nottingham, 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 1996**

	<u>1996</u> £	<u>1995</u> £
TURNOVER (Note 1(1), 2)	7,645,431	5,705,879
Cost of sales	(2,756,574)	(2,445,484)
	<hr/>	<hr/>
GROSS PROFIT	4,888,857	3,260,395
Administrative expenses	(4,006,920)	(2,345,899)
	<hr/>	<hr/>
OPERATING PROFIT	881,937	914,496
Interest receivable (Note 4)	13,204	15,041
Interest payable (Note 5)	(580)	(23,869)
	<hr/>	<hr/>
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION (Note 3)	894,561	905,668
Tax on profit on ordinary activities (Note 6)	(295,206)	(302,118)
	<hr/>	<hr/>
PROFIT FOR THE FINANCIAL YEAR (Note 13)	<u>599,355</u>	<u>603,550</u>

There were no other recognised gains or losses except for the profit for the year.

The notes on pages 7 to 13 form part of these accounts.

KLA INSTRUMENTS LIMITED

BALANCE SHEET - 30 JUNE 1996

	<u>1996</u>		<u>1995</u>	
	£	£	£	£
FIXED ASSETS				
Tangible assets (Note 8)		589,169		317,812
CURRENT ASSETS				
Stocks (Note 9)		818,627		570,922
Debtors (Note 10)		1,543,767		1,336,398
Cash at bank and in hand		952,875		266,242
		<u>3,315,269</u>		<u>2,173,562</u>
CREDITORS: amounts falling due within				
one year (Note 11)		<u>(2,237,514)</u>		<u>(1,423,805)</u>
NET CURRENT ASSETS		<u>1,077,755</u>		<u>749,757</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>1,666,924</u>		<u>1,067,569</u>
PROVISIONS FOR LIABILITIES AND CHARGES				
Deferred taxation (Note 7)		<u>(5,311)</u>		<u>(5,311)</u>
		<u>1,661,613</u>		<u>1,062,258</u>
CAPITAL AND RESERVES				
Called up share capital (Note 12 and 13)		100		100
Profit and loss account (Note 13)		1,661,513		1,062,158
SHAREHOLDERS' FUNDS (Note 13)		<u>1,661,613</u>		<u>1,062,258</u>

Approved by the Board on 6 May 1997
and signed on its behalf by:


C Bastoul
DIRECTOR

The notes on pages 7 to 13 form part of the accounts.

KLA INSTRUMENTS LIMITED

CASH FLOW STATEMENT FOR THE YEAR ENDED 30 JUNE 1996

	<u>1996</u>		<u>1995</u>	
	£	£	£	£
NET CASH INFLOW/(OUTFLOW) FROM OPERATING ACTIVITIES (Note 14)		1,399,506		(409,840)
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE				
Interest received	13,204		15,041	
Interest paid	(580)		(81,970)	
	<u> </u>		<u> </u>	
Net cash inflow/(outflow) from returns on investment and servicing of finance		12,624		(66,929)
TAXATION				
Corporation tax recovered	-		273,672	
Corporation tax paid	(300,509)		(87,260)	
Total tax (paid)/recovered		(300,509)		186,412
INVESTING ACTIVITIES				
Payments to acquire tangible fixed assets	(457,908)		(144,163)	
Receipts from sales of tangible fixed assets	32,920		8,220	
	<u> </u>		<u> </u>	
Net cash (outflow) from investing activities		(424,988)		(135,943)
		<u> </u>		<u> </u>
Net cash inflow/(outflow) before financing		686,633		(426,300)
		<u> </u>		<u> </u>
INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS (Note 15)		686,633		(426,300)
		<u> </u>		<u> </u>

The notes on pages 7 to 13 form part of these accounts.

KLA INSTRUMENTS LIMITED

NOTES TO THE ACCOUNTS - 30 JUNE 1996

1 ACCOUNTING POLICIES

The accounts have been prepared under the historical cost convention and in accordance with applicable accounting standards. The principal accounting policies are as follows:

(1) Turnover

Turnover represents the amounts invoiced to other group companies 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.

(2) Deferred taxation

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

(3) Tangible assets and depreciation

Tangible assets are stated at cost less accumulated depreciation and are written off on a straight line basis over their estimated useful lives.

Depreciation is provided on a straight line basis so as to fully write off assets over the following periods:

Leasehold improvements	period of lease
Equipment and motor vehicles	3 - 5 years
Furniture, fixtures and fittings	5 years

(4) 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.

(5) Stocks

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

(6) Deferred revenue

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

(7) Pension costs

Contributions in respect of the Company's defined contribution pension scheme are charged to the profit and loss account as incurred.

(8) Leased assets

Operating lease payments are charged to the profit and loss account as they arise.

KLA INSTRUMENTS LIMITED

NOTES TO THE ACCOUNTS - 30 JUNE 1996 (CONTINUED)

2 TURNOVER

The geographical analysis of turnover by location is as follows:

	<u>1996</u>	<u>1995</u>
	£	£
United Kingdom	4,184,104	3,518,080
United States of America	2,292,840	1,567,746
Rest of Europe	1,168,487	620,053
	<u>7,645,431</u>	<u>5,705,879</u>

3 PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

Profit on ordinary activities before taxation is stated after charging:

	<u>1996</u>	<u>1995</u>
	£	£
Wages and salaries (including directors' remuneration)	1,692,346	916,847
Social security costs	143,174	84,228
Other pension costs (Note 17)	50,514	33,365
Auditors' remuneration	13,300	12,250
Other fees paid to the Company's auditors	2,000	9,400
Depreciation	147,427	88,784
Hire of plant & machinery	7,111	3,186
Other operating leases	25,525	25,525
Exchange (gains)/losses arising on translation of foreign currencies	(24,403)	43,087
	<u></u>	<u></u>

The average number of persons employed during the year was 34 (1995 : 22).

The remuneration paid to the directors of the Company was:

	<u>1996</u>	<u>1995</u>
	£	£
Emoluments (including pension contributions and benefits in kind)	180,746	168,219
	<u></u>	<u></u>

The emoluments of the highest paid director, excluding pension contributions, were £175,824 (1995 : £164,167). The emoluments of the other directors were £nil (1995: £nil).

KLA INSTRUMENTS LIMITED

NOTES TO THE ACCOUNTS - 30 JUNE 1996 (CONTINUED)

4 INTEREST RECEIVABLE

	<u>1996</u>	<u>1995</u>
	£	£
Interest receivable	13,204	15,041
	<u> </u>	<u> </u>

5 INTEREST PAYABLE

	<u>1996</u>	<u>1995</u>
	£	£
Interest payable to group undertakings	-	23,276
Interest payable to bank	580	593
	<u> </u>	<u> </u>
	580	23,869
	<u> </u>	<u> </u>

6 TAX ON PROFIT ON ORDINARY ACTIVITIES

The charge is based upon the profit on ordinary activities before taxation and comprises:

	<u>1996</u>	<u>1995</u>
	£	£
United Kingdom Corporation tax charge/(credit) at 33%		
- current	295,206	308,000
- prior year	-	(4,179)
- deferred	-	(1,703)
	<u> </u>	<u> </u>
	295,206	302,118

7 DEFERRED TAXATION

Deferred tax movements in the year were as follows:

	<u>1996</u>	<u>1995</u>
	£	£
Accelerated capital allowances	4,696	4,696
Other short term timing differences	615	615
	<u> </u>	<u> </u>
	5,311	5,311
	<u> </u>	<u> </u>

There are no amounts of deferred tax not provided for in these accounts.

KLA INSTRUMENTS LIMITED

NOTES TO THE ACCOUNTS - 30 JUNE 1996 (CONTINUED)

8 TANGIBLE FIXED 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 1995	50,842	501,907	14,904	567,653
Additions	-	456,035	1,873	457,908
Disposals	(733)	(108,581)	(5,696)	(115,010)
	<hr/>	<hr/>	<hr/>	<hr/>
At 30 June 1996	50,109	849,361	11,081	910,551
	<hr/>	<hr/>	<hr/>	<hr/>
<u>Depreciation</u>				
At 1 July 1995	22,329	216,070	11,442	249,841
Charge for the year	4,440	140,377	2,610	147,427
Disposals	(428)	(70,168)	(5,290)	(75,886)
	<hr/>	<hr/>	<hr/>	<hr/>
At 30 June 1996	26,341	286,279	8,762	321,382
	<hr/>	<hr/>	<hr/>	<hr/>
<u>Net book amount</u>				
At 30 June 1996	23,768	563,082	2,319	589,169
	<hr/>	<hr/>	<hr/>	<hr/>
At 30 June 1995	28,513	285,837	3,462	317,812
	<hr/>	<hr/>	<hr/>	<hr/>

9 STOCKS

	<u>1996</u>	<u>1995</u>
	£	£
Raw materials and consumables	804,945	559,914
Finished goods and goods for resale	13,682	11,008
	<hr/>	<hr/>
	818,627	570,922
	<hr/>	<hr/>

KLA INSTRUMENTS LIMITED

NOTES TO THE ACCOUNTS - 30 JUNE 1996 (CONTINUED)

10 DEBTORS: Amounts falling due within one year

	<u>1996</u>	<u>1995</u>
	£	£
Trade debtors	1,138,007	671,601
Amounts owed by group undertakings	324,746	495,944
Other debtors and prepayments	81,014	168,853
	<hr/>	<hr/>
	1,543,767	1,336,398
	<hr/>	<hr/>

11 CREDITORS: Amounts falling due within one year

	<u>1996</u>	<u>1995</u>
	£	£
Trade creditors	60,915	67,584
Amounts owed to group undertakings	792,440	376,579
Corporation tax payable	302,697	308,000
Other taxation and social security	-	23,183
Accruals and other creditors	475,217	277,937
Deferred income	606,245	370,522
	<hr/>	<hr/>
	2,237,514	1,423,805
	<hr/>	<hr/>

12 CALLED UP SHARE CAPITAL

	<u>1996</u>	<u>1995</u>
	£	£
Authorised		
1,000 ordinary shares of £1 each	1,000	1,000
	<hr/>	<hr/>
Issued, allotted and fully paid		
100 ordinary shares of £1 each	100	100
	<hr/>	<hr/>

KLA INSTRUMENTS LIMITED

NOTES TO THE ACCOUNTS - 30 JUNE 1996 (CONTINUED)

13 RECONCILIATION OF MOVEMENT IN SHAREHOLDERS FUNDS

			<u>1996</u>	<u>1995</u>
	<u>Share</u>	<u>Profit &</u>	<u>Total</u>	<u>Total</u>
	<u>capital</u>	<u>loss</u>		
	£	£	£	£
At 1 July	100	1,062,158	1,062,258	458,708
Profit for the year	-	599,355	599,355	603,550
At 30 June	100	1,661,513	1,661,613	1,062,258

14 RECONCILIATION OF OPERATING PROFIT TO NET CASH INFLOW/(OUTFLOW) FROM OPERATING ACTIVITIES

	<u>1996</u>	<u>1995</u>
	£	£
Operating profit	881,937	914,496
(Increase) in stocks	(247,705)	(38,729)
(Increase)/Decrease in debtors	(207,369)	969,789
Increase/(Decrease) in creditors	819,012	(2,350,820)
Depreciation charge	147,427	88,784
Loss on disposal of tangible fixed assets	6,204	6,640
Net cash inflow/(outflow) from operating activities	1,399,506	(409,840)

15 ANALYSIS OF CHANGES IN CASH AND CASH EQUIVALENTS DURING THE YEAR

	<u>1996</u>	<u>1995</u>	<u>Change in year</u>
	£	£	£
Cash at bank and in hand	952,875	266,242	686,633

KLA INSTRUMENTS LIMITED

NOTES TO THE ACCOUNTS - 30 JUNE 1996 (CONTINUED)

16 OPERATING LEASES

The Company had commitments under non-cancellable operating leases to make the following payments during the following year:

	1996		1995	
	Land and buildings	Other	Land and buildings	Other
	£	£	£	£
Operating leases which expire:				
Within one year	-	3,186	-	-
Between two and five years	-	-	-	3,186
After five years	96,140	-	25,525	-
	<hr/>	<hr/>	<hr/>	<hr/>
	96,140	3,186	25,525	3,186
	<hr/>	<hr/>	<hr/>	<hr/>

17 PENSION SCHEME

The Company operates a defined contribution pension scheme, The KLA Retirement and Death Benefit Plan (1984). The assets of the scheme are held separately from those of the Company in an independently administered fund. The pension cost charge represents contributions payable by the Company to the fund and amounted to £50,514 (1995: £33,365). Outstanding pensions contributions at the year end amounted to £10,738 (1995: £1,865).

18 ULTIMATE PARENT UNDERTAKING

The ultimate parent undertaking and the only company to prepare group accounts is KLA Instruments Corporation, incorporated in Delaware, United States of America. Copies of the group accounts may be obtained from 160 Rio Robles, PO Box 49055, San Jose, CA95161-9055.

19 SUBSEQUENT EVENT

Subsequent to the year end, on 14 January 1997, the ultimate parent undertaking, KLA Instruments Corporation, entered into an agreement to acquire Tencor Instruments Corporation. this acquisition was approved by the shareholders of both companies on 30 April 1997.