A PASSION FOR
PERFECTION

PFEIFFER VACUUM

LETTER TO THE SHAREHOLDERS

FISCAL YEAR 2011

The perfect solution

Corporate Profile

Pfeiffer Vacuum – a name that stands for innovative solutions, high technology and dependable products, along with first-class service. For more than 120 years, we have been setting standards in vacuum technology with these attributes. One very special milestone was the invention of the turbopump at our Company more than 50 years ago. Thanks to our know-how, we continue to be the technology and world market leader in this field. To no small degree, this also manifests itself in our strong profitability.

Our extensive line of solutions, products and services ranges from vacuum pumps, measurement and analysis equipment right through to complex vacuum systems. And quality always plays a key role in this connection: Products from Pfeiffer Vacuum are constantly being optimized through close collaboration with customers from a wide variety of industries, through ongoing development work and through the enormous enthusiasm and commitment of our people. These are virtues that we will continue to embrace!

Headquarters: Asslar, Germany

Established: 1890

Purpose of the Company: To develop, manufacture and market components and systems for vacuum generation, measurement and analysis

Manufacturing sites: Asslar and Göttingen, Germany; Annecy, France; Asan, Republic of Korea

Workforce worldwide: 2,291 people

Cover photo: Vacuum chambers, turbopumps and backing pumps. These are the key components of vacuum solutions. With the strategic acquisition of adixen and Trinos Vakuum-Systeme, Pfeiffer Vacuum has intelligently extended its product portfolio. We have expanded our business – for the benefit of our customers, shareholders and employees.

The perfect solution. The merger with adixen and Trinos has transformed Pfeiffer Vacuum into an all-round vacuum solutions provider. We integrated the new business units in 2011. We are now well placed to enjoy future growth.

Key Figures

		2011	2010	Change
Sales and profit				
Total sales	K€	519,509	220,475	135.6%
Germany	K€	113,182	70,641	60.2%
Other countries	K€	406,327	149,834	171.2%
Operating profit	K€	61,777	52,910	16.8%
Operating profit without PPA effects [1]	K€	75,124	52,910	42.0%
Net income	K€	41,568	38,329	8.5%
Net income without PPA effects [1]	K€	50,642	38,329	32.1%
Return on sales	%	8.0	17.4	–9.4 pp
Return on sales without PPA effects [1]	%	9.7	17.4	–7.7 pp
Operating cash flow	K€	71,163	51,904	37.1%
Balance sheet				
Total shareholders' equity and liabilities	K€	476,848	498,906	–4.4%
Cash and cash equivalents	K€	108,293	84,975	27.4%
Shareholders' equity	K€	281,117	269,342	4.4%
Equity ratio	%	59.0	54.0	5.0 pp
Return on equity	%	14.8	14.2	0.6 pp
Return on equity without PPA effects [1]	%	18.0	14.2	3.8 pp
Capital expenditures	K€	20,766	4,889	324.7%
Workforce				
Workforce (average)		2,276	1,226	85.6%
Germany		789	715	10.3%
Other countries		1,487	511	191.0%
Personnel cost	K€	130,394	55,350	135.6%
Per employee	K€	57	62 [2]	–8.1%
Sales per employee	K€	228	246 [2]	–7.3%
Per share				
Earnings	€	4.19	4.40	–4.8%
Earnings without PPA effects [1]	€	5.11	4.40	16.1%
Dividend	€	3.15 [3]	2.90	8.6%

[1] PPA = Purchase Price Allocation. The purchase price allocation refers to the process whereby the costs generated during the acquisition of the company are distributed between the individual assets, liabilities and contingent liabilities at the current market value of the transaction.
[2] Without consideration of adixen workforce
[3] Subject to the consent of the Annual Shareholders Meeting

Special effects in 2011

The purchase price allocation during the acquisition of adixen has resulted in the various assets and liabilities being allocated with the current market value on the date of the transaction. The intangible assets are particularly affected by the PPA adjustments. Of particular mention here are technologies not yet included in the balance sheet, the customer base or the brand name "adixen". An adjustment of values has also been necessary in the property, plant and equipment segment and the inventories. As the newly recorded assets or added values are usually limited to a time scale for use, a scheduled depreciation and amortization must be allocated to these assets

Manfred Bender
Chief Executive Officer

Dr. Matthias Wiemer

Dear Shareholders,

2011 was a year in which Pfeiffer Vacuum underwent radical changes not witnessed since the company went public in 1996.

The number of employees has grown from 920 to 2,300. More than a quarter of these employees is located in Asia. The importance of globalization is growing appreciably. Although Pfeiffer Vacuum has always been present on a worldwide scale with internationally-based sales and service subsidiaries, the acquisition of adixen meant that practically overnight we gained a production plant in Asia, more precisely in South Korea. This allows us close proximity to our customers in the semiconductor industry.

Our semiconductor customers represent a third of our sales revenue. However, I do not see that we are solely dependent on this market as we generate approx. 67% of our sales from the other market segments including industry, analytics, coatings and research & development. In contrast to other market segments, the semiconductor market is more cyclical. We particularly noticed this fact in the second half of 2011. If we consider the increasing digitalization of our daily lives as the key trend that will dominate over the next few years, a stronger position in this segment primarily offers us the opportunity to profit from its growth.

We are also independent of the capital market, or more precisely, the debt capital market. Even a year after the acquisition of a company that was bigger than our own company, there is no net indebtedness. This means that our cash and cash equivalents are higher than our bank liabilities and the equity ratio stands at 59.0%. In these turbulent times of the financial crisis, it is reassuring for me as the CEO to know that besides the normal risk that every business has we do not have to deal with a financial risk as well. At this point, I am pleased to note that our banks supported us in the financing of the acquisition of adixen by providing excellent consultancy services and the necessary financial resources.

In the first year following the acquisition, our business activities were dominated by the integration of the new companies. After just twelve months, we can honestly say that we have completed all the major steps in this project. The sales subsidiaries were integrated and a standardized IT infrastructure was implemented. Sales and marketing can already offer the first jointly developed products and the brand image was standardized. Management and reporting structures were adjusted. The fact that all this ran relatively smoothly is thanks to around 2300 motivated employees. Former competitors were quickly integrated into a team. I would like to personally thank all employees for their help.

In spite of the integration activities we incidentally generated sales revenue of € 520 million and an operating profit (EBIT) of € 62 million. Critics will surely question the lower margins. What is of primary importance for me, however, is the fact that Pfeiffer Vacuum is still highly profitable in absolute figures despite such a radical change. The future has only just begun for this new joint company. It opens up an array of chances for us based on a healthy balance sheet.

Yours,

M. Bender

Manfred Bender,
Chairman of the Management Board

Share Highlights and Shareholder Structure

Table: Pfeiffer Vacuum Share Highlights

		2011	2010	2009
Share capital	in € millions	25.3	25.3	23.0
Number of shares issued	in units	9,867,659	9,867,659	8,970,600
Highest trading price	in €	104.50	90.97	60.59
Lowest trading price	in €	58.53	52.52	36.11
Trading price at year-end	in €	67.62	88.00	58.50
Market capitalization [1] at year-end	in € millions	667	868	498
Dividend per share	in €	3.15 [2]	2.90	2.45
Dividend yield	in %	4.7 [2]	3.3	4.2
Earnings per share	in €	4.19	4.40	3.24
Price/earnings ratio		16.1	20.0	18.1
Free-float [1]	in %	100.0	100.0	94.91

[1] Value based upon Deutsche Börse's free-float definition
[2] Subject to the consent of the Annual Shareholders Meeting

Overview of Holdings According to Voting Rights Notifications

	Dec. 31, 2011
	in %
Arnhold and S. Bleichroeder, New York	9,61
Legg Mason, Inc., Baltimore	4,95
Allianz Global Investors, Frankfurt am Main	3,49
Hakuto, Tokio	3,48
Sun Life, Toronto	3,15

Management's Discussion and Analysis

(Excerpt)

2011 Course of Business

Profitability

The inclusion of the adixen group in the Consolidated Financial Statements for the first time also had an effect on the Group's Consolidated Statements of Income in 2011 after the acquisition had had a significant impact on the Consolidated Balance Sheet as per the close of the fiscal year 2010. This fact as well as the strong development in the existing Pfeiffer Vacuum business were the predominant reasons for the rise of € 299.0 million in sales revenues from € 220.5 million to € 519.5 million.

The impact of the acquisition on the gross profit and the operating profit was also significant and results were considerably up from the previous year's figures. The gross profit increased by € 64.5 million from € 102.9 million to € 167.4 million and the operating profit of € 61.8 million is up by € 8.9 million from the previous year's result (€ 52.9 million). In contrast, the gross margin and the operating profit margin saw a decline in comparison to last year's figures: 32.2% and 11.9% respectively after 46.7% and 24.0% in 2010. The negative margin development is primarily caused by the lower profitability level of the adixen division compared to that of the former Pfeiffer Vacuum Group.

It should however be noted that the effects of the subsequent valuation of the purchase price allocation have had a significant impact on profitability. The Purchase Price Allocation (in short: PPA) is a procedure whereby the various assets and liabilities assumed during an acquisition are recorded with the current market value on the date of the transaction. The International Financial Reporting Standards (IFRS) require that this PPA is completed not later than in the first twelve months after the acquisition. After the Consolidated Financial Statements were preliminary prepared as at December 31, 2010 using the book values of the acquired adixen net assets, the market values of the acquired net assets were determined retroactively as at December 31, 2010 and recorded in the adjusted Consolidated Balance Sheets on this date. The adjustments from the PPA as at December 31, 2010 mainly relate to the intangible assets. Of particular mention here are developed technology not yet included in the balance sheet, the customer base or the brand name "adixen". An adjustment has also been recorded in property, plant and equipment and the inventories. At the same time goodwill has also dropped considerably by € 38.0 million to € 45.0 million. As the newly recorded assets or added values are usually limited to a time scale for use, a scheduled depreciation and amortization must be allocated to these assets. The effects resulting from the PPA on the Consolidated Statements of Income will be subsequently referred to as PPA effects and burdened the Group's operating profit with a total of € 13.3 million in 2011. Thus, adjusted values lie at the same level that was forecast for 2011.

As a result of the borrowed capital taken out to finance the adixen acquisition and the financial liabilities assumed from the adixen business, the financial result decreased from € +1.6 million in 2010 to € –2.3 million in the past fiscal year. The tax ratio stood at 30.1%, up only moderately from the previous year's level of 29.7%, primarily due to the tax rate differences between Germany and the individual countries of the newly acquired companies.

The net income of € 41.6 million is € 3.3 million over the previous year's result of € 38.3 million. The PPA effects recorded in the net income amount to € 9.0 million. Earnings per share amounted to € 4.19 in the past fiscal year (2010: € 4.40). Despite the higher net income, the earnings per share decreased as the higher number of shares in circulation cancel out the increase in earnings.

Sales

Sales by region

	2011	2010		Change
	in € millions	in € millions	in € millions	in %
Europe	229.9	127.7	102.2	80.1
Asia	189.8	37.3	152.5	408.5
The Americas	98.7	54.8	43.9	80.4
Rest of World	1.1	0.7	0.4	44.8
Total	**519.5**	220.5	299.0	135.6

Europe

As was expected, the initial consolidation of adixen in the Consolidated Financial Statements had an impact on the development of the sales revenue in the region of Europe. The sales revenue rose by more than € 100 million, or 80.1%. Contributing countries in Europe include Germany, France and Italy.

Asia

The outstanding importance of the Asian region for the Pfeiffer Vacuum Group was underlined in the sales by segment analysis and becomes even more evident in the regional overview. The sales revenues more than quintupled due to the fact that the majority of the semiconductor industry customers are based in the economic region of Asia and due to the significance of this industry segment for adixen. It is not just the initial consolidation of adixen in the Financial Statements but also the positive development of the Pfeiffer Vacuum business activities – be it to a lesser extent – that has contributed to this development.

The Americas

The development of the sales revenue in the region of the Americas is characterized by the developments in the USA. The inclusion of adixen for the first time and the modest decline in the former U.S. sales subsidiary's volume combined with a negative sales impact due to weaker U.S. dollar/euro exchange rate parity were causal for this (see also "Sales by segments", USA). The share of sales revenue posted outside the USA, in particular in South America, is also included in this region that is represented for the first time. These results were included in the "Rest of World" category last year and were re-categorized accordingly to ensure comparability.

Sales by products

Backing pumps

The most significant change in the sales revenue by product category has been noticed in the Backing Pump segment by € 154.3 million to € 183.0 million. This is essentially attributable to the strength of adixen particularly in this segment but was also fueled by the positive development of the sales revenue of backing pumps by the Pfeiffer Vacuum brand.

Turbopumps

The formerly strongest product range in the Pfeiffer Vacuum Group's product portfolio, the turbopumps, has now dropped to second in the revenue standings behind the backing pumps with a total sales revenue of € 144.3 million and a sales revenue share of 27.8% in 2011. The initial consolidation of adixen in the Consolidated Financial Statements has not had the same impact in this segment as is the case in the backing pump product category. Nevertheless, the development of the sales revenue has also been affected, yet Pfeiffer Vacuum turbopumps also recorded positive developments.

Sales by products

	2011	2010	Change	
	in € millions	in € millions	in € millions	in %
Backing pumps	183.0	28.7	154.3	538.4
Turbopumps	144.3	92.4	51.9	56.2
Instruments and components	111.3	69.2	42.1	61.0
Service	72.5	23.1	49.4	213.2
Systems	8.4	7.1	1.3	17.7
Total	**519.5**	220.5	299.0	135.6

Instruments and components

The instruments and components product group covers a wide spectrum that was significantly expanded in 2011 with the addition of the adixen product portfolio. This is partly a result of the steep rise in the sales revenue by € 42.1 million or 61.0%. On the other hand, the instruments and components business from Pfeiffer Vacuum and Trinos have also recorded comparatively impressive developments.

Service

As a result of the high revenue share of adixen in the semiconductors industry, the sales revenue in Service from adixen is considerably higher than the revenue in the Pfeiffer Vacuum Group before the merger. One of the reasons for this are the aggressive process conditions that the pumps are exposed to in this branch of the industry and that make regular maintenance inevitable. With an increase of € 49.4 million, the sales revenue in Service has more than tripled.

Systems

The changes in the Systems segment have been insignificant in 2011 despite the initial consolidation of adixen in the financial figures. The decline in sales revenue resulting from the withdrawal of sales revenue generated from a large contract still proportionally included in last year's results was more than offset by external growth, enabling the total sales revenue to increase to € 8.4 million in the total fiscal year. With a share in sales revenue totaling 1.6%, the Systems segment was of rather subordinated importance in 2011.

Sales by market

The following section details the development of sales revenues in the individual markets in 2011 relative to the year before.

Sales by market

	2011	2010	Change	
	in € millions	in € millions	in € millions	in %
Semiconductors	175.4	23.8	151.6	636.9
Industry	117.5	58.4	59.1	101.3
Coating	90.2	32.1	58.1	181.1
Analytical Industry	81.3	63.3	18.0	28.4
Research & Development	55.1	42.9	12.2	28.5
Total	**519.5**	220.5	299.0	135.6

Semiconductors

In view of the development of net sales in the Semiconductors market segment, the increase in relevance of this market segment becomes evident for the Pfeiffer Vacuum Group. A third of the total sales revenue volume is generated with customers from this segment. A high level of volatility is observed when looking back at the development of the sales revenue volume over the year. Despite an impressive first quarter in 2011, the sales revenue volume dropped steadily and posted the lowest result for 2011 in the last quarter of the fiscal year (€ 34.7 million). However, we now believe that the worst of the downturn in this segment is now behind us.

Industry

Since 2011, the extremely heterogeneous Industry market segment now includes the sales revenue generated by the previous Chemical and Process Technology market segment and is basically following the trend set by the general mechanical engineering industry. As a result, we are satisfied with both the solid development compared to last year's level as well as during 2011. The main reason for the increase is attributable to the consolidation of adixen in the results for the first time, yet the sales revenue generated from customers of the Pfeiffer Vacuum Industry segment also achieved a two-figure growth rate.

Coating

As a result of the business activities of adixen, the coating industry has also gained in importance for the Pfeiffer Vacuum Group with a share in sales revenue of 17.4% (2010: 14.6%). The solar industry has also gained in significance as a sub-branch of this market segment and the total share in sales revenue is up to 10.1% in 2011 (2010: 6.4%).

Analytical Industry

The traditionally strong position of Pfeiffer Vacuum in the Analytical Industry has been strengthened by the acquisition of adixen. The entire growth of € 18.0 million in comparison to 2010 is attributed to external growth and organic growth of the former Pfeiffer Vacuum Group. With a total of € 81.3 million in 2011, this market remained constant during the course of 2011.

Research & Development

Pfeiffer Vacuum always enjoyed a high share of the market in this market segment in the past. The acquisition of adixen has strengthened the Company's share of the market and a positive development in the former Pfeiffer Vacuum Group has improved its position even more. Following several weaker months in the summer of 2011, the sales revenue recovered by the end of the year and the fourth quarter was the most successful of the entire year.

New orders and orders on hand

New orders are at € 515.9 million, in 2011. This represents an increase by € 292.2 million (2010: € 223.7 million), which was largely influenced by the acquisition of adixen on December 31, 2010. In addition, the recent development in the core business of Pfeiffer Vacuum during 2011 was also very satisfactory. Similarly, the development of new orders, in the fourth quarter of 2011, allows us to be cautiously optimistic about the future. After a very strong first half in 2011 (€ 293.2 million) new orders in the third quarter were comparatively low at € 109.7 million. In contrast, the volume of new orders in the last quarter of the previous fiscal year has increased again (€ 113.0 million). After the book to bill ratio, the ratio between new orders and revenue, in 2010 stood at 1.01, in 2011 a ratio of 0.99 was reached.

The value of orders on hand on December 31, 2011, totaled € 87.6 million, down by € 3.6 million from the previous year (€ 91.2 million, taking into account the adixen orders). The Company's well-filled order books as of December 31, 2011 provides us with planning predictability for the initial months of the 2012. The visibility of orders, based on average sales in 2011, is about two months.

Earnings development

Cost of sales and gross profit

The cost of sales for 2011 are € 352.1 million. Compared to the previous year's figure of € 117.6 million the development is significantly influenced by the cost of sales from the adixen business. Also, significant portions of the PPA effects are attributable to the cost of sales so that they alone shall be charged a total of € 7.0 million. Considering sales revenues of € 519.5 million and taking into account the effects of PPA, this results in a gross profit of € 167.4 million (2010: € 102.9 million). This represents an improvement of € 64.5 million. The gross margin, the ratio of gross profit and revenue is, as expected, in decline. According to 46.7% in 2010, the gross margin reached 32.2% in the current fiscal year. Gross profit and gross margin are also influenced by the product mix.

Selling and administrative expenses

In fiscal year 2011, selling and administration expenses totaled € 89.5 million. The amount in the previous year was € 42.7 million and this represents a significant increase of € 46.8 million covering both selling and marketing expenses as well as general and administrative expenses which are clearly attributable, by a large extent, to the inclusion of adixen. € 28.3 million of this increase are attributable to selling and marketing expenses, including PPA effects of € 3.3 million. € 18.5 million are attributable to general and administrative expenses. In addition, there are expenses for consulting services incurred in connection with the legal integration of the adixen business operation. Despite the high absolute changes in selling and administrative expenses, the percent share of total sales is significantly reduced from 19.4% in the previous year to 17.2% in 2011.

Research and development expenses

The research and development expenses are significantly influenced by the added expense components of adixen and amount to € 7.0 million in the previous year and € 22.7 million in 2011. Included therein are € 3.0 million for PPA effects. The percent share of sales has risen from 3.2% in 2010 to 4.4% in 2011. Adjusted for the PPA effects and the funds obtained through grants for research and development services (€ 5.0 million) contained in the other operating income, net research and development expenses totaled € 14.7 million.

Other operating income and other operating expenses

Other operating income and other operating expenses mainly include the Company foreign exchange gains and losses. All the underlying foreign currency transactions are allocated to operating activities and are therefore recorded within the operating profit. In addition, other operating income of € 14.6 million (2010: € 1.4 million) included for the first time in 2011, the French adixen unit's expense subsidies totaling € 5.0 million. Other operating expenses of € 8.0 million (2010: € 1.7 million) also included losses of € 0.5 million for disposal of fixed assets (2010: € 0.0 million). The foreign exchange gains in 2011 were € 2.1 million (2010: € –0.3 million). This significant increase resulted primarily from the increased importance of foreign currency transactions in the adixen area. Essentially, the development of the U.S. dollar is the major factor in this connection.

Operating profit

The operating profit of € 61.8 million for 2011 is € 8.9 million over the previous year's figure of € 52.9 million. The PPA effects contained in the operating profit amount to € 13.3 million. The operating profit margin, the ratio between operating profit and net sales, was at 24.0% last year, now at 11.9%.

The increase in operating profit shows that the acquisition of adixen by Pfeiffer Vacuum is already a sucess in the first year. Even though margins are weaker compared to the previous year, the absolute values increased and represent an improvement compared to the situation before the acquisition. The success is already clearly apparent looking at the operating profit before depreciation and amortization (earnings before interest, taxes, depreciation, amortization, EBITDA): this figure increased by € 26.2 million in the past year from € 57.2 million in 2010 to 83.4 million. This represents an increase of 45.8%. The amount of the deprecation/amortization included in this figure is recorded for 2011 at € 21.6 million (2010: € 4,2 million). The significant increase in depreciation/amortization results from the initial inclusion of adixen and, in particular, from the amortization of intangible assets recorded in connection with the PPA (technology, customer base) of € 9.5 million.

Financial income

In particular, due the incurred financial liabilities that result from the acquisition of adixen the financial expenses have increased from € 1.8 million to € 2.9 million. Financial income of € 3.4 million in the previous year was characterized by realized investment gains and amounts to a total of € 0.6 million in 2011. On balance, the net financial income showed a decline from € +1.6 million to € –2.3 million in 2011.

Income taxes

As a result of the increase by € 5.0 million in income before taxes the tax expenses for 2011 have also increased slightly by € 1.7 million to a total of € 17.9 million (2010: € 16.2 million). The tax rate for the Corporate Group is 30.1%, only slightly higher than in the previous fiscal year with 29.7%, so that the relative burden hardly increased. The slight increase in the tax rate is primarily due to tax rate differentials between the companies previously included in the Consolidated Financial Statements and the newly consolidated companies. The positive PPA effects on tax expenses amounted to € 4.3 million and reduced the overall recorded burden.

Net income

Even though a profit of € 41.6 million after taxes was achieved, which was the highest result in the history of Pfeiffer Vacuum, the overall results in 2011 are reduced by a total of € 9.0 million due to the PPA effects. In addition, when taking the previous year into account, the results after taxes were favored in 2010 because of capital gains from investments in securities. Overall, the after-tax return on sales of 17.4% last year declined to 8.0%.

Earnings per share

Earnings per share are recorded at € 4.19 which is € 0.21 less than the previous year's value of € 4.40. This development is mainly due to the fact that the average numbers of shares in circulation must be taken into account when calculating the earnings per share. Through a capital increase of 10% and the sale of treasury shares (5.1% of existing share capital), the absolute number of shares increased in November 2010, and thus influences the weighted average. In 2011, however, the higher number of outstanding shares during the year must be taken into account for the full year, so that in absolute terms, despite a higher net income, earnings per share have declined. In addition,the burden on earnings due to PPA effects were € 0.92 per share. As in the year before, there continues to be no dilutive effects in fiscal 2011.

Financial position

When analyzing the financial situation on December 31, 2011 it should be noted that the Balance Sheets of December 31, 2010 have been adjusted in connection with the purchase price allocation for the acquisition of adixen. The corresponding effects from the recognition of all assets and liabilities acquired in this regard with their fair value, in other words the required disclosures of hidden reserves in connection with the PPA, are summarized in detail in the Annual Report 2011.

Significant effects from the revaluation of the acquired intangible assets as of December 31, 2010 result from the previously unrecognized and within the framework of the PPA recognized values for technology, customer base and brand. The adjustments for fixed assets reflect, in comparison to book values, the higher market value of buildings and machinery. With regard to inventory, write-downs were necessary in order to revalue acquired stock items at fair value. The net write-down of € 6.2 million in comparison to the book value stated on December, 31, 2011 consists of a gross appreciation of € 4.1 million and a gross depreciation of € 10.3 million. The liabilities side show significant PPA adjustments resulting from the inclusion of deferred taxes on recognized fair value adjustments. As a result of the net fair value adjustments recorded, the goodwill due to the adixen acquisition was able to be reduced by € 38.0 million from a preliminary € 83.0 million to a final value of € 45.0 million.

When taking into account the previously mentioned adjusted Balance Sheets of December 31, 2010 the following picture emerges. Total assets of € 498.9 million declined slightly by € 22.1 million to € 476.8 million as at December 31, 2011. On the asset side of the Balance Sheets the decrease in trade accounts receivable and inventories (€ –25.0 million or € –13.4 million) is particularly noteworthy. The decrease in intangible assets is almost exclusively the result of the scheduled amortization relating to items recorded within the framework of the adixen acquisition. Cash and cash equivalents increased from € 85.0 million on December, 31, 2010 to € 108.3 million at the end of fiscal 2011. A detailed analysis of the development of this position is located in the following section "Liquidity and cash flow." With regard to the development of the items on the liabilities side of the Balance Sheets, the decrease in trade accounts payable by € 26.9 million and the increase in equity of € 11.8 million are of particular note. The change in equity results primarily from the net income earned in the reported year (€ 41.6 million) and the dividend payment to shareholders of Pfeiffer Vacuum Technology AG (€ 28.6 million). The equity ratio rose from 54.0% to 59.0%. Pfeiffer Vacuum has improved the already above-average capital base and – with cash holdings of € 108.3 million and financial liabilities totaling € 76.6 million – again shows no net debt position.

The development of trade accounts payable corresponds in exactly the same way as the change in inventories and trade account receivables to the declared intention of Pfeiffer Vacuum, to reduce the value of these Balance Sheet items in relation to revenue and volume of business. The first results are evident with regard to the development of net working capital, which is the sum of trade accounts receivable and inventories less trade accounts payable.

Liquidity and cash flow

As with the development of the Income Statement the operating cash flow is substantially affected by the acquisition of adixen. Thus, the cash inflow increased from € 51.9 million in 2010 to € 71.2 million in 2011. This represents a significant increase by € 19.3 million. This can be attributed mainly to the higher income before tax (€ +5.0 million) and also to the higher non-cash amortization and depreciation expenses (€ 21.6 million compared to € 4.2 million last year). Similarly to 2010, the cash flow effects from the development of assets (mainly inventories and trade accounts receivable) are essentially offset by those from the development of the liabilities and provisions. Positive impacts additionally stemmed from the development of inventories. As a result of the sharp rise in operating cash flow, the cash flow per share at € 7.21 was also higher in 2011 than ever before in the Company's history (2010: € 5,99). This figure illustrates, impressively, the advantages of adixen acquisition.
Within the investment activities, the Company in 2011 recorded cash outflows totaling € 12.2 million (2010: € 94.7 million). Major factors were capital expenditures of € 20.8 million (2010: € 4.9 million) and proceeds from divestments totaling € 5.9 million (2010: € 0.0 million). Information on the composition of capital expenditure can be found in the following section "Capital expenditures and financing." Proceeds from divestments resulted from the sale of adixen companies in Japan and Sweden to long-term business partners. In conjunction with the determination of the final purchase price for the adixen acquisition a total cash inflow of € 1.4 million occurred during 2011. In 2010, the cash flow from investing activities was significantly affected by the acquisitions of adixen and Trinos (€ 85.0 million and € 9.9 million respectively, totaling € 94.9 million).

The cash flow from financing activities in 2011 was characterized almost exclusively by the dividend payment to shareholders of Pfeiffer Vacuum Technology AG (€ 28.6 million). In addition, funds amounting to € 5.0 million were spent in connection with the repayment of financial debts. The acquisition of non-controlling interests in adixen Vacuum Technology Korea Ltd. resulted in a cash outflow of € 1.8 million. Overall, the cash outflow in 2011 amounted to € 35.5 million (2010: € 64.5 million cash inflow). The high 2010 figure, in addition to the dividend payment, was marked in particular by the acquisition of adixen. Thus, in connection with the financing activities in 2010, net proceeds from the capital increase (€ 73.0 million), the proceeds from the sale of treasury shares (€ 38.5 million) and a new bank loan for € 67.0 million was noted. The dept redemption of the acquired companies in 2010 led to further outflows of € 93.0 million.

After a balance of € 85.0 million on December 31, 2010 cash and cash equivalents at end of fiscal year 2011 are at a total of € 108.3 million. Thus, when taking into account financial liabilities of € 76.6 million there are still no remaining net liabilities outstanding. Additionally the Company has unused credit lines in the amount of € 17.7 million (2010: € 17.3 million).

The free cash flow is invested in interest-bearing financial instruments. A cash management system is in place between the German companies in Asslar in order to pool liquidity. Conservative and largely short-term investment vehicles, such as money market or time deposits at financial institutions, dominate in conjunction with financial investments. In the case of securities, only fixed- or variable rate bond issues from issuers with high credit ratings are acquired on principle. These typically consist of bond issues from banks or high-grade industrial bond issuers. Speculative transactions are not performed. The loan in conjunction with the acquisition of the adixen business unit was taken out by the parent corporation. Both liquidity management as well as steering of the interest-rate change risk is thus handled at Corporate Headquarters, taking into consideration all relevant matters within the Corporate Group.

Capital expenditures and financing

The area of capital expenditures and financing was influenced by the transaction involving adixen at the end of the previous fiscal year and in 2011. However, the main effects were already recorded in 2010, because under the debt-free acquisition a total of € 196.9 million was paid to the seller on December 31, 2010. This amount consists of the redemption of debt in the amount of € 85.0 million and the then preliminary purchase price for the equity investments in the amount of € 111.9 million. As part of the final settlement of the purchase price € 1.4 million were repaid from Alcatel-Lucent in 2011. As a result of the optimization of business operations in Sweden and Japan in 2011, the companies that were acquired in connection with the adixen purchase, adixen Scandinavia AB, Sweden, and adixen Japan Ltd., Japan, were divested. The net cash inflows amounted to € 5.9 million.

Operating business, capital expenditures and dividend payments (€ 28.6 million) were financed in 2011 by internal funds of the Corporate Group. In addition, existing financial debts in the amount of € 5.0 million were repaid. The financing of the purchase price paid for adixen and debt relief in 2010 was covered by a net capital increase (€ 74.0 million), the sale of treasury shares (€ 38.5 million), taking out a bank loan (€ 67.0 million) and free cash flow (€ 17.4 million).

The capital expenditures in the amount of € 20.8 million (2010: € 4.9 million) related predominantly to technical equipment and machinery (€ 11.2 million; 2010: € 2.7 million) as well as to land and buildings (€ 6.0 million; 2010: € 0.0 million). The large investments in land and buildings and technical equipment and machinery in 2011 are particularly associated with the necessary capacity adjustments at the adixen production sites.

After the expansion of business volume and the obtaining of borrowed capital at the end of fiscal year 2010 the equity ratio as at December 31, 2010 stood at sound 54.0%. Because of the satisfactory earnings development in 2011 and the increase in business volume this ratio at the end of the 2011 fiscal year was at 59.0%. Considering the cash and cash equivalents, the Corporate Group also had as at December 31, 2011 no net financial liabilities. The current assets ratio as the ratio of current assets and current liabilities amounted to 269% (2010: 225%) and continues to reflect the sound financing concept and the high credit rating of Pfeiffer Vacuum, despite the lasting change in the financial position as a result of corporate acquisitions.

The aforementioned capital expenditures of € 20.8 million (excluding corporate transactions) and depreciation/amortization amounts in 2011 of € 21.6 million resulted in a depreciation expense ratio (ratio of capital expenditure to depreciation/amortiziation) of 96%. Therefore, the capital expenditures in 2011 were roughly at the level of the loss of value of fixed assets (2010: 115%). Excluding the PPA effects, which were affected, in particular, by € 9.5 million in amortization of intangible assets, the ratio was 171%.

Subsequent Events

Significant changes to the business conditions or the branch environment have not occurred since the beginning of the 2012 fiscal year.

Outlook

General economic development

Against the backdrop of a weakening economic development in the second half of 2011, experts of the International Monetary Fund (IMF) expect worldwide economic growth in 2012 to stand at 3.3%, following 3.7% in 2011. This growth would primarily come from Asian countries, whose increase is forecast at a total of 7.3%. China with 8.2% and India with 7.0% had the most increased growth; both values are decreased compared to the two previous years.

In contrast, according to the IMF, the eurozone will develop negatively with –0.5%. Within the eurozone, however, Germany will still have a prominent position with an estimated average economic growth of 0.3%. It is expected that the economic situation in the USA will remain stable compared to 2011 with an increase of 1.8%. For the Japanese economy, the value of 1.7% represents a significant improvement. However, in Russia, the economy appears to cool down with a rate of 3.3%. In South America, Brazil with a forecast of 3.0% and Mexico with 3.5% demonstrate slightly below-average growth rates for this region.

Mechanical engineering

The VDMA forecasts stable development of production for the year 2012, which will lead to a zero growth rate compared to the previous year. For incoming orders, on the other hand, the VDMA has already reported a decline of 9% in January 2012 compared to the strong reference value of the previous year period. Nevertheless, looking at the overall economic condition the VDMA expects the industry to take a breather in 2012, rather than a cyclical downturn. Key factors for this development are, for one, the risky economic environment. In particular, the main export country of China shows a decline in economic dynamics. In addition, uncertainties concerning the outcome of the European national debt create an inhibitory effect on the mood. Capital expenditures are likely to be postponed in such a climate. In addition, the effect on the banks and their willingness to lend is awaited.

Development in the markets

Pfeiffer Vacuum divides its customers into the Semiconductor, Industrial, Coating, Analytical Industry, and Research & Development market segments.

The Semiconductor market segment is cyclical and has experienced a boom phase in 2011, which slowed down considerably in the second half of the year. Due to varying signals from the market, further development is difficult to assess. While some large companies have reported strong declines in their business development, Samsung has announced capital expenditures of approximately € 33 billions for 2012. The course of this market will depend on how much the optimism of individual market participants will affect the others. Fundamentally, Pfeiffer Vacuum expects that the demand for products from the semiconductor industry will generally increase due to the continuing digitalization of everyday tasks – even if it may lead to a short-term decline in the market sector.

In the Industrial market segment, the order growth will primarily be determined by new product developments as well as the general trend towards resource conservation. Here, Pfeiffer Vacuum expects a more stable development. The Coating market segment is significantly influenced by orders from the solar industry. These also declined in the second half of the 2011 fiscal year and a cyclical upturn is currently not foreseeable. However, Pfeiffer Vacuum also anticipates an increase in demand in the long term in this sector. Aside from the solar market, the Coating market segment is also expected to develop in a stable manner.

Pfeiffer Vacuum has the same expectations for solid development in relation to the Analytical Industry and Research & Development markets. Analytics is used in research activities and quality control in general industry and is especially used in the semiconductor sector. The Research & Development market is dependent on political decisions concerning funding for projects and research institutes.

Development of sales revenue in 2012

The inclusion of revenues from adixen for the first time as well as the very good developments in the core business across all segments led to an increase in sales in 2011 of 135.6% to € 519.5 million. Concerning the deteriorating forecasts concerning the global economy as well as the mechanical engineering market, Pfeiffer Vacuum does not expect continued strong growth in 2012. A moderate sales decline can not be excluded.

The incoming orders, in comparison to the general trend in the mechanical engineering sector, slightly recovered in the fourth quarter compared to the third quarter. This upbeat mood continued in the first weeks of 2012. However, no conclusions should be drawn about the expected total annual sales. A quantifiable estimation of sales development is also complicated by the fact that the visibility of our orders is amount two months.

Earnings development

After the adixen acquisition, the previously extraordinarily high return on sales and operating profit margin of Pfeiffer Vacuum decreased to normal values for the industry. In addition, assets recognized in connection with the PPA are depreciated/amortized. These burdens will decrease from € 13.3 million in 2011 to approximately € 7.0 million each for the fiscal years 2012 and 2013, respectively. Operating optimization activities should as well contribute to improving margins, also beyond 2012.

Capital expenditures currently planned for 2012 are approximately € 10 million for the entire Group. According to past procedure, which has proven itself in our estimation, we will give a detailed outlook of the entire current fiscal year at the Annual Shareholders Meeting on May 22, 2012.

Dividends

Pfeiffer Vacuum is a title known to have strong dividends on the German stock market. The Company wishes to remain faithful to this philosophy. The Management Board and the Supervisory Board will therefore propose at the Annual Shareholders Meeting to distribute a dividend of € 3.15 per share (for 2010: € 2.90 per share). With a distribution volume of some € 31.1 million, this would once again lead to approximately 75% of net profit to be paid out to shareholders.

Forward-looking statements

The statements in the forecast report were made on the basis of assumptions about future macroeconomic and sector-specific development. The actual results may significantly differ from the expectations about the likely development if the assumptions underlying the statements subsequently prove to be incorrect.

Beginning in 2012 and continuing in 2013, the integration of adixen in the existing business operations of the Pfeiffer Vacuum Group will have a significant impact. We wish to remain a highly profitable company. Overall we are confident that we can achieve this goal on the basis of the order development at the end of 2011, the strategic focus on clearly defined target markets, and the ongoing conversations with our customers. Our highly trained and motivated employees form the basis for this expectation.

Financial Calendar 2012

Friday, February 17
Preliminary results for fiscal year 2011

Monday, March 26
Results for fiscal year 2011

Thursday, May 3
Interim report 1st quarter 2012 results

Tuesday, May 22
Annual Shareholders Meeting

Wednesday, May 23
Pay-out of dividend

Tuesday, August 7
Interim report 2nd quarter/1st half year 2012 results

Tuesday, November 6
Interim report 3rd quarter/9-months 2012 results

Consolidated Statements of Income

	2011	2010
	in K€	in K€
Net sales	519,509	220,475
Cost of sales	–352,129	–117,553
Gross profit	**167,380**	102,922
Selling and marketing expenses	–54,521	–26,211
General and administrative expenses	–35,009	–16,518
Research and development expenses	–22,713	–6,993
Other operating income	14,648	1,424
Other operating expenses	–8,008	–1,714
Operating profit	**61,777**	52,910
thereof: subsequent effects from purchase price allocation	–13,347	—
Financial expenses	–2,923	–1,798
Financial income	645	3,416
Earnings before taxes	**59,499**	54,528
Income taxes	–17,931	–16,199
Net income	**41,568**	38,329
Thereof attributable to:		
Pfeiffer Vacuum Technology AG shareholders	**41,382**	38,144
Non-controlling interests	186	185
Earnings per share (in €):		
Basic	4.19	4.40
Diluted	4.19	4.40

Consolidated Statements of Comprehensive Income

	2011	2010
	in K€	in K€
Net income	**41,568**	38,329
Other comprehensive income		
Currency changes	1,007	2,225
Results from cash flow hedges	–508	40
Revaluation of available-for-sale securities	—	–1,293
Income tax relating to other comprehensive income	161	–12
Other comprehensive income, net of tax	**660**	960
Total comprehensive income	**42,228**	39,289
Thereof attributable to:		
Pfeiffer Vacuum Technology AG shareholders	**42,035**	39,041
Non-controlling interests	193	248

Consolidated Balance Sheets

	Dec. 31, 2011	Dec. 31, 2010
		adjusted [1]
	in K€	in K€
ASSETS		
Intangible assets	93,688	106,401
Property, plant and equipment	96,331	90,662
Investment properties	592	616
Shares in associated companies	1,950	2,150
Prepaid pension cost	354	554
Deferred tax assets	10,177	8,744
Other non-current assets	3,883	3,146
Total non-current assets	**206,975**	212,273
Inventories	84,941	98,295
Trade accounts receivable	61,418	86,392
Other accounts receivable	12,789	15,343
Prepaid expenses	2,432	1,628
Cash and cash equivalents	108,293	84,975
Total current assets	**269,873**	286,633
Total assets	**476,848**	498,906

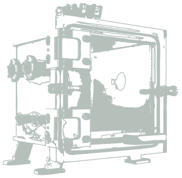
	Dec. 31, 2011	Dec. 31, 2010
		adjusted [1]
	in K€	in K€
SHAREHOLDERS' EQUITY AND LIABILITIES		
Equity		
Share capital	25,261	25,261
Additional paid-in capital	98,147	98,862
Retained earnings	158,418	145,652
Other equity components	–1,507	–2,160
Equity of Pfeiffer Vacuum Technology AG shareholders	**280,319**	267,615
Non-controlling interests	798	1,727
Total equity	**281,117**	269,342
Financial liabilities	71,473	75,487
Provisions for pensions	7,354	6,103
Deferred tax liabilities	16,556	20,436
Total non-current liabilities	**95,383**	102,026
Trade accounts payable	26,966	53,831
Other accounts payable	24,844	27,860
Provisions	28,410	26,167
Income tax liabilities	9,429	11,868
Customer deposits	5,613	4,642
Financial liabilities	5,086	3,170
Total current liabilities	**100,348**	127,538
Total shareholders' equity and liabilities	**476,848**	498,906

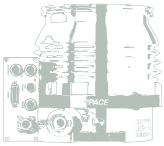
[1] *Due to the completion of the purchase price allocation for the adixen acquisition in fiscal 2011 some of the amounts shown above were adjusted retroactively and thus differ from the amounts reported in the Consolidated Financial Statements 2010.*

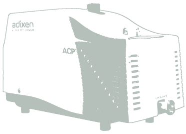
Consolidated Statements of Cash Flows

	2011	2010
	in K€	in K€
Cash flow from operating activities:		
Earnings before taxes	59,499	54,528
Adjustment for financial income/financial expense	2,078	665
Financial income received	463	764
Financial expenses paid	–2,743	–172
Income taxes paid	–21,971	–8,149
Depreciation/amortization	21,582	4,244
Non-cash impairment losses	200	350
Loss/Gain from disposals of assets	529	–2,627
Changes in allowances for doubtful accounts	564	172
Changes in inventory reserves	2,451	358
Effects of changes in assets and liabilities:		
Inventories	11,105	–4,327
Receivables and other assets	21,109	1,508
Provisions, including pension and income tax liabilities	–73	1,190
Payables, other liabilities	–23,630	3,400
Net cash provided by operating activities	**71,163**	51,904
Cash flow from investing activities:		
Capital expenditures	–20,766	–4,889
Proceeds from divestments	5,885	—
Proceeds from purchase price adjustments	1,374	—
Proceeds from disposals of fixed assets	1,336	138
Payments for acquisitions	—	–94,878
Expenditures from purchase of associated companies	—	–2,500
Expenditures from purchase of non-controlling interests	—	–225
Redemptions/sales of investment securities	—	7,695
Net cash used in investing activities	**–12,171**	–94,659

	2011	2010
(continued)	in K€	in K€
Cash flow from financing activities:		
Dividend payments	–28,616	–20,860
Redemptions of financial liabilities	–5,015	–93,026
Expenditures from purchase of non-controlling interests	–1,837	—
Dividend payments to non-controlling interests	—	–139
Proceeds from increase of share capital	—	73,007
Proceeds from increase of financial liabilities	—	67,000
Sale of treasury shares	—	38,530
Net cash used in/provided by financing activities	**–35,468**	64,512
Effects of foreign exchange rate changes on cash and cash equivalents	–206	1,235
Net increase/decrease in cash and cash equivalents	**23,318**	22,992
Cash and cash equivalents at beginning of period	84,975	61,983
Cash and cash equivalents at end of period	**108,293**	84,975







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