

Economic Potential **Vacuum Technology**

LETTER TO THE SHAREHOLDERS

FISCAL YEAR 2014

Corporate Profile

Pfeiffer Vacuum – a name that stands for innovative solutions, high technology and dependable products, along with first-class service. For more than 125 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, Germany; Göttingen, Germany; Annecy, France; Asan, Republic of Korea; Cluj, Romania
- **Workforce worldwide:** 2,258 people

Key Figures

		2014	2013	Change
Sales and profit				
Total sales	κ€	406,642	408,727	- 0.5 %
Germany	κ€	75,743	76,652	- 1.2 %
Other countries	κ€	330,899	332,075	- 0.4 %
Operating profit	κ€	44,744	50,523	- 11.4 %
Net income	κ€	32,419	34,815	- 6.9 %
Return on sales	%	8.0	8.5	- 0.5 Pp
Operating cash flow	κ€	52,327	47,928	9.2 %
Balance sheet				
Total shareholders' equity and liabilities	κ€	429,078	430,537	- 0.3 %
Cash and cash equivalents	κ€	101,468	95,129	6.7 %
Shareholders' equity	κ€	279,728	276,010	1.3 %
Equity ratio	%	65.2	64.1	1.1 Pp
Return on equity	%	11.6	12.6	- 1.0 Pp
Capital expenditures	κ€	10,012	10,274	- 2.6 %
Workforce				
Workforce (average)		2,261	2,219	1.9 %
Germany		847	820	3.3 %
Other countries		1,414	1,399	1.1 %
Personnel costs	κ€	134,391	130,724	2.8 %
Per employee	κ€	59	59	0.0 %
Sales per employee	κ€	180	184	- 2.2 %
Per share				
Earnings	€	3.29	3.53	- 6.8 %
Dividend	€	2.65 ¹	2.65	0.0 %

¹ Subject to the consent of the Annual General Meeting

All percentages in this Annual Report were derived on the basis of amounts in thousands of euros. Rounding differences might result from their presentation in millions of euros.

*Dear shareholders,
employees and business associates,*

Here at Pfeiffer Vacuum, the year 2014 will probably make it into our history books as a year of transition. We may not have succeeded, unfortunately, in steering the overall year back onto a growth course; however, the demand for our products in the fourth quarter has seen an anticipated and highly welcome revival. Nevertheless, we have slightly missed the mark of last year's results, as the bulk of delivered products for the year consisted of products with less favorable profit margins.

The revived business is still driving the new year 2015. This was made possible primarily by the incoming orders of the fourth quarter, which with a total of € 110 million exceeded the two preceding quarters by € 10 million each. We expect the product composition, referred to above, of these new orders to normalize – resulting in an improved operating profit margin.

The prerequisites for a successful 2015 have been met: in the past year, Pfeiffer Vacuum has introduced many product innovations that are outstandingly competitive due to important product characteristics such as energy efficiency and long service intervals. Furthermore, we are proud to have won back an important customer in the analytics field during the second half of the year. Last but not least, we have been able to convince several new customers operating in this market of the superior quality of our pumps.

We are therefore excellently positioned to take part in an upward trend and to increase our market share. The declared goal of our Company remains to offer our customers the best application-specific vacuum solutions while simultaneously keeping a close eye on our internal profitability goals.

While total revenue remained almost unchanged at € 406.6 million, the net income for 2014 came to € 32.4 million, and was thus 6.9 % below the corresponding value of the previous year. As always, part of the profits will be paid out to you, dear shareholders, as dividends. The remaining amount will be retained in order to further safeguard the balance sheet strength we are known for: with an equity ratio of 65.2 %, Pfeiffer Vacuum holds a very strong position. On a net basis, the Company is debt-free, meaning our liquid assets exceed our financial liabilities. This freedom from debt offers us a certain degree of independence, although it is not our first priority. Taking on debt should serve a specific purpose, rather than being an end in itself. Thus, our business orientation remains conservative and committed to long-term profitability.



Manfred Bender, Chief Executive Officer

The operative word *long-term* is of particular relevance this year, as Pfeiffer Vacuum celebrates its 125th anniversary in 2015. Much has happened in the world since 1890, but a certain continuity remains discernable: the Company once offered solutions to improve the operation of gas lanterns and light bulbs, and to this day, Pfeiffer Vacuum still operates in the lighting field: without vacuum technology, there would be no LEDs or OLEDs today – or even laser light.

Although we do not know what the world will look like 125 years into the future, there is a good chance that the demand for vacuum technology will be immense: the more precise, advanced, and sophisticated the various applications and end-products of the future will become, the more important suitable vacuum solutions will be. With the acquisition of adixen in late 2010, we have turned our attention to the global semiconductor market. Despite its proneness to severe fluctuations, the sheer size and extraordinary growth rates of this market make it of central importance. For example, in this day and age, the average compact car contains more semiconductor systems than the manned Apollo-11 spacecraft did when it conquered the moon in 1969.

The economic potential that vacuum technology holds is nearly limitless – which is why this annual report has adopted this topic as its overarching theme, which it illustrates with some real-life examples. Whether we are talking about a contribution to ensure the availability of clean drinking water, the energy-efficient coating of architectural glass, researching the mysteries of space, or more accurate welding methods in various industrial fields: vacuum technology makes it possible. Nothing is better. For 125 years already.

In order to go with the times and protect the environment, our annual report will, for the first time and aside from a small printed edition, be issued as an elegant credit card-sized USB stick. This modernization is not only in the interest of sustainability, but also serves as yet another example of how semiconductors can enter previously analog areas and enrich our lives.

*Yours,
M. Bender*

Manfred Bender
Chairman of the Management Board



Dr. Matthias Wiemer, Member of the Management Board

Share Performance

Share highlights and Shareholder Structure

Overview of Holdings according to Voting Rights Notification

in %	Dec. 31, 2014
Ameriprise Financial, Minneapolis	4.65
Hakuto, Tokyo	3.48
Threadneedle, Luxembourg	3.45
Henderson, London	3.44
Allianz Global Investors, Frankfurt	3.08
Sun Life, Toronto	3.01

Pfeiffer Vacuum Share Data

		2014	2013	2012
Share capital	in € millions	25.3	25.3	25.3
Number of shares issued	in units	9,867,659	9,867,659	9,867,659
Highest trading price	in €	102.05	99.55	95.00
Lowest	in €	56.21	76.50	66.31
Trading price at year-end	in €	68.60	98.93	91.57
Market capitalization ¹ at year-end	in € millions	677	976	903
Dividend per share	in €	2.65 ²	2.65	3.45
Dividend yield	in %	3.9 ²	2.7	3.8
Earnings per share	in €	3.29	3.53	4.64
Price/earnings ratio		20.9	28.1	19.7
Free float ¹	in %	100.0	100.0	100.0

¹ Value based upon Deutsche Börse's free-float definition

² Subject to consent of the Annual General Meeting

Management's Discussion and Analysis (Excerpt)

2014 Course of Business

Profitability

- Net sales decreased slightly by € 2.1 million to € 406.6 million
- The gross margin decreased due to a decline in sales and product mix of 36.5 % to 35.3 %
- Operating profit margin of 11.0 % at € 44.7 million operating profit
- Net income stands at € 32.4 million, earnings per share at € 3.29
- Management Board and Supervisory Board propose an unaltered dividend payout of € 2.65 per share
- Dividend payout ratio increased to around 81 % of the consolidated net income

At € 406.6 million, sales in the past fiscal year were slightly below the level of the previous year (€ 408.7 million). As a result, in particular, of the subdued demand from our Asian semiconductor customers and a temporary decline in analytics, the notable sales growth that was formulated as a goal in the last year's outlook failed to materialize. The expected sales volume of between € 410 and € 440 million that was forecasted at the last Annual General Meeting was also narrowly missed due to the above-mentioned reasons.

Sales by region

Sales by Region				
	2014	2013	Change	
	in € millions	in € millions	in € millions	in %
Europe	183.2	182.1	1.1	0.6
Asia	130.3	143.9	- 13.6	- 9.4
The Americas	92.6	81.4	11.2	13.7
Rest of World	0.5	1.3	- 0.8	- 62.7
Total	406.6	408.7	- 2.1	- 0.5

Europe

This region developed positively in the period under review. The total increase of € 1.1 million was the result of a weaker development in Germany and France, while the other countries in Europe were able to achieve almost continuous growth. This more than offset the overall decline in Germany and France.

Asia

With a drop of € 13.6 million in 2014, the Asian region experienced very significant weak demand. In virtually all countries in this region, sales declines were recorded that were predominantly attributable to the already mentioned weak demand in the semiconductor industry. But even in the coating market, a slight decline in momentum was recorded in this region in 2014 compared to the previous year.

The Americas

The development of sales in the Americas continues to be affected essentially by the development in the USA. Since there is virtually no direct business by the German or French units in this region, this development largely conforms to the course of sales according to segments. Along with the positive sales development in North and South America, the share of total sales has improved significantly.

Sales by products

Sales by Products				
	2014	2013	Change	
	in € millions	in € millions	in € millions	in %
Turbopumps	124.7	125.3	- 0.6	- 0.5
Instruments and components	96.9	101.1	- 4.2	- 4.2
Backing pumps	89.4	92.1	- 2.7	- 2.9
Service	85.0	81.7	3.3	4.1
Systems	10.6	8.5	2.1	25.5
Total	406.6	408.7	- 2.1	- 0.5

Turbopumps

With a drop of only 0.5 %, sales of turbopumps in fiscal 2014 were similar to the previous year's level. This change resulted from a very different development in the individual target markets, however, and the semiconductor and analytical industry market segments deserve positive mention in this regard. The share of total revenue was unchanged at 30.7 %, so the turbopumps again represented the strongest product group in 2014.

Instruments and components

The sales development of instruments and components closely correlates to business with backing pumps, since these are often sold with vacuum measurement equipment and special connecting elements such as piping and flanges. As a result, sales fell, particularly in the Asian region. After a positive development in sales of leak detectors in 2013 – particularly in the USA – sales declines were recorded in 2014. In contrast, sales of components improved slightly in the past fiscal year.

Backing pumps

Overall, a decline in sales of backing pumps was recorded in 2014. However, regionally this development was very heterogeneous. While in Germany, and particularly in the USA, sales showed significant growth, this increase was more than offset by a sharply declining development in Asia. The decline in Asia resulted from the continuing sluggish demand in the semiconductor industry in this region.

Service

The installed basis of products from the Pfeiffer Vacuum Group creates a sound foundation for our service activities. The partly aggressive and corrosive process conditions, under which the pumps are used, particularly in the semiconductor industry, make regular maintenance an absolute necessity. Thus, the positive trend in 2014 also resulted primarily from increased sales to our semiconductor customers.

Systems

Sales in this project-driven sector rose from € 8.5 million in the previous year to € 10.6 million in the past fiscal year.

Sales by market

Sales by Market	2014	2013	Change	
	in € millions	in € millions	in € millions	in %
Semiconductor	118.4	123.4	- 5.0	- 4.1
Industry	107.2	104.9	2.3	2.2
Analytics	78.7	79.6	- 0.9	- 1.2
Research & Development	55.2	55.1	0.1	0.3
Coating	47.1	45.7	1.4	3.0
Total	406.6	408.7	- 2.1	- 0.5

Semiconductor

The development of this largest single market with a share of 29.1 % in 2014 (previous year: 30.2 %), was characterized by two opposing trends: on one hand, the already mentioned weak demand in Asia, and a significant upturn in the semiconductor industry in the USA on the other. This upturn had its greatest impact in the fourth quarter of 2014 and contributed significantly to sales. Overall, we recorded a decline in sales of € 5.0 million to € 118.4 million (previous year: € 123.4 million).

Industry

With a sales increase of € 2.3 million, the industry market segment in fiscal 2014 showed a positive development. Our most heterogeneous market segment includes a broad range of customers from the automotive and the metalworking industry up to the food industry. Accordingly, positive and negative developments in individual areas are balanced out very well. The positive trend resulted mainly from Europe and the USA, where our largest customers in this market segment reside.

Analytics

At € 78.7 million, this market segment recorded a slight reduction in sales of € 0.9 million (previous year: € 79.6 million). At the same time, some of our customers in this sector continued to react with restraint in 2014, and this was partially offset by an increased volume of sales with other customers.

Research & Development

The market segment Research & Development is our most stable market segment. Accordingly, at € 55.2 million, sales in 2014 were virtually on a par with the previous year's level (€ 55.1 million). Due to the high number of state-owned and partly state-owned research institutes, this segment developed largely independently of economic trends. Also typical is the development within the fiscal year with somewhat weaker summer months and a much stronger fourth quarter, which was also observed in 2014.

Coating

With an increase of € 1.4 million again over the previous year, the Coating market segment again recorded a slight increase in the past fiscal year. The solar branch has significant potential for development in this segment, and we felt initial impulses from this industry during the past fiscal year. We still regard the solar industry as having strong potential for the future since, in our estimation, global energy demand will be extremely hard to meet in the medium term without this technology.

New orders and orders on hand

After new orders of € 398.0 million in 2013, this figure amounted to € 404.9 million in 2014, which represents a slight increase of € 6.9 million. This development was recorded in basically all product areas. Decreases were recorded only in the field of instruments and components. Of particular note was the development of new orders in the fourth quarter, which was also the best quarter of 2014 with € 109.7 million achieved. This development looks set to continue during 2015 according to the latest analyses. After 0.97 in the previous year, the book-to-bill ratio, the ratio between new orders and sales, stood at 1.00 in 2014. The order volume on hand as of December 31, 2014 totaled € 59.3 million, and lay slightly below the previous year's figure of € 61.1 million. The visibility of orders on the basis of the average sales in 2014 remains unchanged at about two months.

Earnings development

Gross profit and Cost of sales

After € 259.3 million in fiscal 2013, the cost of sales was recorded at € 263.3 million in 2014. This represents an increase of € 4.0 million with a simultaneous decrease in revenues of € 2.1 million. Accordingly, during 2014, both developments negatively impacted on the gross profit and gross margin, the ratio of gross profit to sales. After € 149.4 million in the previous year, the gross profit in the past fiscal year totaled € 143.4 million, and the gross margin decreased from 36.5 % in the previous year to currently 35.3 %.

Selling and administrative expenses

After € 80.7 million in fiscal 2013, the total figure for selling and administrative expenses amounted to € 82.6 million in 2014. This meant an increase of € 1.9 million. Viewed in isolation, the selling and marketing expenses rose by € 1.5 million to € 52.8 million (previous year: € 51.3 million), while the general and administrative expenses slightly increased by € 0.4 million to € 29.8 million (previous year: € 29.4 million). The share of selling and administrative expenses to sales increased, due to the lower turnover basis and higher costs, from 19.7 % in the previous year to 20.3 % in the past fiscal year.

Research and development expenses

At € 23.9 million, research and development costs in the past fiscal year 2014 were some € 1.0 million over the previous year's value of € 22.9 million. The increase was mainly due to higher expenses in connection with the international application of patents. The percentage share of sales increased from 5.6 % in 2013 to 5.9 % in 2014. Adjusted for funds obtained through grants for research and development services with an unchanged amount of € 4.0 million contained in the other operating income, the net research and development expenses totaled € 19.9 million (previous year: € 18.9 million). We are continuously committed to advancing the development of vacuum technology through our own research projects as well as by rigorously fostering teaching and science. We view research and development expenses as an indispensable investment in the future.

Other operating income and other operating expenses

Other operating income and other operating expenses principally include the Group's foreign exchange gains and losses. The other operating income of € 10.2 million (previous year: € 8.3 million) in addition includes subsidies for expenses in an unchanged amount of € 4.0 million. In 2014, too, the other operating expenses of € 2.2 million (previous year: € 3.5 million) included only the foreign exchange losses recorded. The net foreign exchange results in 2014 were € + 3.9 million (previous year: € – 0.3 million).

Operating profit

The increase in selling and administrative expenses and research and development costs by a total of € 2.9 million was slightly more than offset particularly by the significant improvement in the foreign exchange results. Accordingly, the negative impact which was almost exclusively due to the decline in gross profit of € 6.0 million also impacted the operating income, which now totals € 44.7 million following € 50.5 million in 2013. This represents a decrease of € 5.8 million or 11.4 % and corresponds to an operating profit margin, or EBIT margin, of 11.0 % (previous year: 12.4 %). The amount of depreciation and amortization (for tangible and intangible assets) included in this figure was recorded at € 20.5 million for 2014 (previous year: € 20.2 million), which results in operating profit before depreciation and amortization (earnings before interest, taxes, depreciation and amortization, EBITDA) of € 65.2 million. After € 70.7 million in 2013, this equals a reduction of € 5.5 million or 7.8 %.

Financial income

As a result of the continued decline in interest rates, both financial income and financial expenses in 2014 decreased. The result was a slight improvement in the financial income from € – 0.6 million in the previous year to € – 0.5 million in 2014.

Income taxes

As a consequence of the lower earnings before taxes, the tax expenses also decreased in 2014. After € 15.1 million in the previous year, a figure of € 11.9 million was recorded for the past fiscal year. In addition, the relative burden in the form of the tax ratio declined again. For 2014, this ratio stood at 26.8 %, following 30.3 % in the previous year. The decrease is caused particularly by international differences in tax levels.

Net income

After € 34.8 million in 2013, net income amounted to € 32.4 million in fiscal 2014. This corresponds to a decrease of € 2.4 million or 6.9 %. Despite declining operating profits and the corresponding margins, the after-tax return on sales, that is, the ratio of net income to sales, at 8.0 % was 0.5 %-points lower than the 8.5 % figure of the previous year.

Earnings per share

The earnings per share at € 3.29 were € 0.24 lower than the recorded figure of the previous year (€ 3.53). The relative change corresponded exactly to the change in the net income, since as in the year before, there continued to be no dilutive effects in fiscal 2014.

Financial position

After € 430.5 million as of December 31, 2013, the balance sheet total of the Pfeiffer Vacuum Group as of December 31, 2014 is now € 429.1 million. This corresponds to a slight decrease of € 1.4 million. On the asset side of the balance sheet the renewed decrease in inventories by € 5.7 million is particularly noteworthy. The deferred income tax receivables developed contrary to this pattern, having risen by € 6.1 million to a total of € 22.2 million. As in the previous years, the decrease in intangible assets was again almost exclusively the result of scheduled amortization relating to items recorded within the framework of the adixen acquisition. Tangible fixed assets decreased by a net € 3.8 million. This development was primarily influenced by capital expenditures of € 9.0 million and scheduled depreciation/amortization of € 13.5 million (previous year: € 9.4 million and € 13.3 million). The largest balance sheet item, taken together, is cash and cash equivalents. After € 95.1 million at the end of fiscal 2013, this item rose to € 101.5 million by December 31, 2014. A detailed analysis of the development of cash and cash equivalents is given in the section "Liquidity and cash flow" below.

With regard to the development of the items on the liabilities side of the balance sheet, the decrease in repaid financial liabilities of € 10.3 million due to repayment and the increase in pension provisions of € 16.3 million are particularly noteworthy. The increase in pension provisions as a result of the again lower discount rate was recognized as an actuarial loss directly under Other Equity Components. Equity rose by € 3.7 million from € 276.0 million to € 279.7 million. This change is primarily the result of net income earned in the reported year after taxes (€ 32.4 million) and the dividend payment to Pfeiffer Vacuum Technology AG shareholders (€ 26.1 million) and the net € 2.6 million decrease in other equity components. The equity ratio increased from 64.1 % to 65.2 %. Pfeiffer Vacuum has improved the already above-average capital base compared to the volume of business, and with cash holdings of € 101.5 million and financial liabilities totaling € 31.2 million again records no net debt position as at December 31, 2014.

Due to the decrease in the volume of business and continued optimization measures, it has again been possible to achieve a further reduction in the net working capital in 2014. The improvements amounted to € 2.3 million.

Liquidity and cash flow

Following € 479 million in fiscal year 2013, the operating cash flow was € 52.3 million in the year 2014. This represents an increase by € 4.4 million. Besides the lower earnings before taxes (€ – 5.7 million) and the correspondingly lower income tax payments (€ – 4.3 million), mainly the decrease in receivables and other assets by € 3.5 million, positively impacted the operating cash flow. In the previous year, negative effects of € 4.4 million were recorded here. From further optimization of inventories, a positive effect of € 3.8 million (previous year: € 2.3 million) resulted in 2014, while burdens of € 7.4 million were recorded from the development of liabilities and customer deposits in the year under review (2013: € 1.9 million). The cash flow per share of € 4.86 in fiscal 2013 increased to € 5.30 in the past fiscal year. The still high level of this figure shows the unchanged capacity of the Pfeiffer Vacuum Group to generate disproportionately high cash inflows within the framework of operational activities.

The net cash outflow from investing activities stood virtually unchanged against the previous year. Capital expenditures of € 10.0 million (previous year: € 10.3 million) were to be seen against by the proceeds from the sale of property, plant and equipment amounting again to € 0.3 million, with the result that after € 10.0 million in 2013, the overall cash outflow totaled € 9.7 million. Further information on the composition of capital expenditure can be found in the section "Capital expenditures and financing" below.

The cash flow from financing activities in 2014 again was characterized by the dividend payment to Pfeiffer Vacuum Technology AG shareholders (€ 26.1 million) and the repayment of financial debts (€ 10.5 million). In 2014, the cash outflow thus totaled € 36.7 million. In the previous year, the dividend payment of € 34.0 million and the repayment of financial liabilities (€ 10.8 million) resulted in a cash outflow from financing activities totaling € 44.8 million.

In light of the currency effects, the cash inflow totaled € 6.3 million (previous year: cash outflow € 6.9 million) and led to an increase in cash and cash equivalents of 6.7 % to € 101.5 million. Thus, taking into account financial liabilities (€ 31.2 million, thereof € 10.5 million short term), there are still no outstanding net liabilities. Furthermore, the Company had unused credit lines amounting to € 28.1 million at the balance sheet date (previous year: € 19.6 million).

The free cash flow is invested in interest-bearing financial instruments. A cash management system is in place in the German Group 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 where financial investments are concerned. Speculative transactions are not conducted. 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 are thus primarily handled at Corporate Headquarters, taking into consideration all relevant matters within the Corporate Group.

Capital expenditures and financing

Operating business, capital expenditures, and dividend payments were financed as in previous years solely by internal funds of the Corporate Group. In addition, again in 2014, existing financial liabilities in the amount of € 10.3 million were repaid. Capital expenditures in the amount of € 10.0 million related predominantly to necessary re-investments for machinery and plant and equipment. There were no major changes in the composition of capital expenditures. The total amount and the allocation are within our expectations and also comply with the forecast provided for 2014.

The balance sheet total of the Pfeiffer Vacuum Group has long demonstrated a very solid capital base. After an equity ratio of 64.1 % at the end of the 2013 fiscal year, the equity ratio as of December 31, 2014 stood at an exceptionally high 65.2 %. The current assets ratio, as the ratio of current assets to current liabilities, amounted to 308 % (previous year: 318 %) and continues to reflect the sound financing concept and high credit rating of Pfeiffer Vacuum.

The above-mentioned capital expenditures of € 10.0 million and a depreciation/amortization volume of € 20.5 million in 2014 resulted in a depreciation expense ratio (ratio of capital expenditure to depreciation/amortization) of 49 %. As in previous years, new capital expenditures in 2014 continued to be below the level of the loss of value of fixed assets (previous year: 51 %). This is due to the continued high depreciation amounts resulting from the purchase price allocation (PPA).

Outlook

General economic development

The International Monetary Fund (IMF) expects growth in global gross domestic product (GDP) of 3.8 % in 2015. The corresponding figure for 2014 amounted to 3.3 %. Although the apparently imminent acceleration of global growth is to be welcomed, it should be mentioned that many of the latest estimates for 2014 are slightly lower than the latest updated figures. Macroeconomic issues relating to Greece and the conflict between Russia and Ukraine lend an additional degree of uncertainty to these estimations.

The strongest GDP growth is still expected from the emerging regions; especially China and India will continue to grow disproportionately fast with 7.1 % and 6.4 % respectively (previous year: 7.4 % and 5.6 %). For 2015, the IMF anticipates an aggregated growth of 6.6 % in the emerging Asian nations (previous year: 6.5 %). In contrast, the institute expects 2.3 % growth from the group of seven of the economically most important developed countries, the so-called G 7 (previous year: 1.7 %). After the previous year's projection of 1.4 %, the IMF now anticipates growth of 1.8 % in the European Union in 2015.

Mechanical engineering

The mechanical engineering industry once again expects growth in 2015. Of the major producers, only China and the USA will grow above average, while the three other major producing countries, Japan, Italy, and Germany, are not expected to generate any growth overall for 2015, despite the fact that these regions saw some tentative improvements towards the end of 2014.

The German Engineering Federation (VDMA) forecasts an increased output of 3.0 % in fiscal 2015, after growth of one percent in 2014, according to the latest figures. The results were therefore below the original projections of the federation. In absolute figures, German mechanical and plant engineering companies with a total estimated € 199 billion turnover in 2014 nevertheless slightly exceeded the previous year's figure, and all-time high, from 2012 and 2013. With an estimated growth to € 205 billion in 2015, a new record high could be achieved.

Development in the markets

Pfeiffer Vacuum divides its customers into the Semiconductor, Industrial, Analytical Industry, Research & Development and Coating market segments. The Semiconductor market segment is regarded as cyclical in nature and, after a sharp downturn in the past year, an initial slight recovery could be seen. Signals from the market and from our customers point to further upward movement. While some large semiconductor companies were able to report record profits again, some of the chip manufacturers are still busy with the next generations of their product lines. In the current fiscal year, the course of this market segment will therefore yet again depend on how quickly and extensively these customers invest in new production facilities and technologies. Pfeiffer Vacuum strongly believes that the demand for products from the semiconductor industry will generally grow at an above-average rate in view of the increasing complexity of digital innovations in almost all areas of everyday life – even if this development is typically characterized by a strong cyclical nature.

In the Industrial market segment, the order growth will primarily be determined by new product developments as well as the general trend towards energy efficiency and resource conservation. Here, Pfeiffer Vacuum expects a relatively stable development in the medium term as well.

Pfeiffer Vacuum expects a similar dynamic development in the case of the Analytical Industry and Research & Development market segments. Analytical instruments are used in research and quality assurance applications in general industry and, in particular, in the semiconductor sector. The Research & Development market segment is dependent on political decisions on the funding of projects, and on research institutes.

The Coating market segment includes customers from sectors such as displays (LED, OLED), architectural glass, solar, and many other areas of surface treatment. As far as the solar industry is concerned, it continues to suffer from acute overcapacities, which resulted in the fact that substantial investment in building up new capacities did not take place in the past fiscal year. Pfeiffer Vacuum currently assumes a stable to slightly upward-tending development of the solar market – albeit at a much lower level than a few years ago.

Development of sales in 2015

The relatively low level of sales from customers in the semiconductor industry is the primary reason for the 0.5% decline in sales to € 406.6 million in 2014. So far, there are promising signs of improvement, particularly in the semiconductor sector. For the other sectors, we also expect an upswing in 2015. Sales – in keeping with the general trend in the mechanical engineering sector – grew in the fourth quarter, compared to the third quarter. The visibility of orders again is approximately two months. Therefore, no conclusions should be drawn regarding the expected total annual sales on the basis of the subdued level of orders at the end of 2014. Due to the above reasons, and also in view of the improving macroeconomic forecasts – for the global economy as well as the engineering industry – Pfeiffer Vacuum is expecting a noticeable increase in sales in 2015.

Earnings development

Since the acquisition of adixen, with effect from December 31, 2010, we have continued to write off certain amounts, as scheduled, as a consequence of purchase price allocation. This financial burden amounted to € 7 million in the 2014 fiscal year, and is expected to be € 7 million again in 2015. Operational optimization measures as well as economies of scale related to the expected sales improvement should contribute to a noticeable improvement in the operating profit and the EBIT margin situation in 2015. As a result of our low financial liabilities, and therefore low financial expenses, we expect the development of our earnings before taxes to progress parallel to the development of our operating profit. Capital expenditures currently planned for 2015 range between € 10 million and € 12 million for the entire Group.

Dividends

Pfeiffer Vacuum is specifically known as a dividend yielding stock on the German stock market. The Company wishes to remain faithful to this tradition. The Management Board and the Supervisory Board will therefore propose at the Annual General Meeting to distribute an unchanged dividend of € 2.65 per share for fiscal 2014. With a distribution volume of some € 26.1 million, this would result in approximately 80.7% of net profit being paid out to shareholders.

Forward-looking statements

The statements, estimations, and other information in this outlook are based upon assumptions about future macroeconomic and sector-specific development. The assumptions are based upon the latest information available at the time of publication. Due to the inherent risk and uncertainty relating to the probability of the statements and estimations made here, actual developments may differ significantly. We wish to remain a highly profitable company. Overall, we are confident that we can achieve this goal on the basis of the development of business at the end of 2014, the strategic focus on clearly defined target markets, and the ongoing conversations with our customers. With our highly trained and motivated employees, we are excellently positioned to achieve this.

Consolidated Statements of Income

Pfeiffer Vacuum Technology AG

in K€	2014	2013
Net sales	406,642	408,727
Cost of sales	- 263,259	- 259,345
Gross profit	143,383	149,382
Selling and marketing expenses	- 52,789	- 51,343
General and administrative expenses	- 29,853	- 29,407
Research and development expenses	- 23,936	- 22,900
Other operating income	10,176	8,268
Other operating expenses	- 2,237	- 3,477
Operating profit	44,744	50,523
Financial expenses	- 978	- 1,217
Financial income	507	644
Earnings before taxes	44,273	49,950
Income taxes	- 11,854	- 15,135
Net income	32,419	34,815
Earnings per share (in €):		
Basic	3.29	3.53
Diluted	3.29	3.53

Consolidated Statements of Comprehensive Income

Pfeiffer Vacuum Technology AG

in K€	2014	2013
Net income	32,419	34,815
Other comprehensive income		
Amounts to be reclassified to income statement in future periods (if applicable)		
Currency changes	8,083	- 2,528
Results from cash flow hedges	- 96	- 167
Related deferred income tax effects	32	48
	8,019	- 2,647
Amounts not to be reclassified to income statement in future periods		
Valuation of defined benefit plans	- 14,916	1,406
Related deferred income tax effects	4,345	- 504
	- 10,571	902
Other comprehensive income net of tax	- 2,552	- 1,745
Total comprehensive income net of tax	29,867	33,070

Consolidated Balance Sheets

Pfeiffer Vacuum Technology AG

in K €	Dec. 31, 2014	Dec. 31, 2013
ASSETS		
Intangible assets	77,857	81,397
Property, plant and equipment	85,135	88,897
Investment properties	520	544
Shares in associated companies	1,600	1,600
Deferred tax assets	22,202	16,064
Other non-current assets	4,819	4,027
Total non-current assets	192,133	192,529
Inventories	64,245	69,975
Trade accounts receivable	53,649	54,128
Income tax receivables	6,325	5,909
Prepaid expenses	1,230	1,714
Other accounts receivable	10,028	11,153
Cash and cash equivalents	101,468	95,129
Total current assets	236,945	238,008
Total assets	429,078	430,537

in K €	Dec. 31, 2014	Dec. 31, 2013
SHAREHOLDERS' EQUITY AND LIABILITIES		
Share capital	25,261	25,261
Additional paid-in capital	96,245	96,245
Retained earnings	180,201	173,931
Other equity components	- 21,979	- 19,427
Equity of Pfeiffer Vacuum Technology AG shareholders	279,728	276,010
Financial liabilities	20,697	40,945
Provisions for pensions	44,203	27,941
Deferred tax liabilities	7,614	10,690
Total non-current liabilities	72,514	79,576
Trade accounts payable	19,414	23,362
Customer deposits	3,029	5,481
Other accounts payable	18,544	18,785
Provisions	22,367	23,519
Income tax liabilities	2,974	3,254
Financial liabilities	10,508	550
Total current liabilities	76,836	74,951
Total shareholders' equity and liabilities	429,078	430,537

Consolidated Statements of Cash Flows

Pfeiffer Vacuum Technology AG

in K €	2014	2013
Cash flow from operating activities:		
Earnings before taxes	44,273	49,950
Adjustment for financial income/financial expenses	471	573
Financial income received	425	566
Financial expenses paid	– 750	– 1,027
Income taxes paid	– 17,236	– 21,503
Depreciation/amortization	20,492	20,218
Gain/loss from disposals of assets	– 23	– 54
Changes in allowances for doubtful accounts	212	357
Changes in inventory reserves	3,876	2,971
Other non-cash income and expenses	446	– 856
Effects of changes in assets and liabilities:		
Inventories	3,836	2,321
Receivables and other assets	3,484	– 4,413
Provisions, including pension and income tax liabilities	206	696
Payables, customer deposits	– 7,385	– 1,871
Net cash provided by operating activities	52,327	47,928

(continued) in K €	2014	2013
Cash flow from investing activities:		
Capital expenditures	– 10,012	– 10,274
Proceeds from disposals of fixed assets	352	237
Net cash used in investing activities	– 9,660	– 10,037
Cash flow from financing activities:		
Dividend payments	– 26,149	– 34,043
Redemptions of financial liabilities	– 10,548	– 10,775
Net cash used in financing activities	– 36,697	– 44,818
Effects of foreign exchange rate changes on cash and cash equivalents	369	50
Net increase/decrease in cash and cash equivalents	6,339	– 6,877
Cash and cash equivalents at beginning of period	95,129	102,006
Cash and cash equivalents at end of period	101,468	95,129

Financial Calendar 2015

Friday,
February 20

Preliminary
results for
fiscal year
2014

Thursday,
March 26

Results for
fiscal year
2014

Tuesday,
May 5

Interim report
1st quarter 2015
results

Thursday,
May 21

Annual General
Meeting 2015

Tuesday,
August 4

Interim report
2nd quarter/
1st half-year 2015
results

Tuesday,
November 3

Interim report
3rd quarter/
9-month 2015
results

Upon request you will receive a full print version of our annual report. Please visit our online version at www.pfeiffer-vacuum.com

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