



INTERNATIONAL
UNITED
STRONG

LETTER TO THE SHAREHOLDERS
FISCAL YEAR 2017

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 exceptional 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 as well as helium leak detectors
- **Manufacturing sites:** Asslar, Germany; Göttingen, Germany; Annecy, France; Asan, Republic of Korea; Cluj, Romania; Indianapolis, USA; Yreka, USA; Ho Chi Minh City, Vietnam
- **Workforce worldwide:** 2,945 people

KEY FIGURES

		2017	2016	Change
Sales and profit				
Total sales	κ€	586,962	474,244	23.8 %
Germany	κ€	98,715	78,254	26.1 %
Other countries	κ€	488,247	395,990	23.3 %
Operating profit	κ€	71,386	67,976	5.0 %
Net income	κ€	53,848	47,032	14.5 %
Return on sales	%	9,2	9,9	- 0.7 Pp
Operating cash flow	κ€	71,397	63,616	12.2 %
Balance sheet				
Total shareholders' equity and liabilities	κ€	553,361	459,322	20.5 %
Cash and cash equivalents	κ€	97,402	110,032	- 11.5 %
Shareholders' equity	κ€	320,937	315,574	1.7 %
Equity ratio	%	58,0	68,7	- 10.7 Pp
Return on equity	%	16,8	14,9	1.9 Pp
Capital expenditures	κ€	27,678	18,018	53.6 %
Workforce				
Workforce (average)		2,809	2,385	17.8 %
Germany		935	892	4.8 %
Other countries		1,874	1,493	25.5 %
Personnel costs	κ€	190,970	157,618	21.2 %
Per employee	κ€	68	66	3.0 %
Sales per employee	κ€	209	199	5.0 %
Per share				
Earnings	€	5.46	4.77	14.5 %
Dividend	€	2.00 ¹	3.60	- 44.4 %

¹ Subject to the consent of the Annual General Meeting

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



Dear shareholders,

We at Pfeiffer Vacuum Technology AG have a very eventful year behind us. Despite all the internal and external challenges we were facing, we were able to bring 2017 to a close with very good results.

By that I do not just mean the financial figures, which certainly continued the positive trend from 2016 and which attest to the Group's stable growth: for example, we experienced an increase in sales of more than 23 percent compared to the same period last year, reaching a record high of €587 million.

More than that, I mean those results that cannot be represented in a fact sheet table. Together, we were able to ride out the turbulence that had built up in connection with the takeover bids from the Busch Group. We have a very good feeling about the new, long-term anchor shareholder and are very optimistic about the future. Prospectively, I would like to fully exploit the potential of our Group companies in future.

The change in leadership all went smoothly. After Mr Bender's departure, Pfeiffer Vacuum was able to find experienced successors in Ms Benedikt as the new CFO, and myself as CEO. I have worked in the vacuum industry for the last 30 years, the last seven being spent at Pfeiffer Vacuum in various capacities, including heading the Business Unit Semiconductor and Coating.

I am full of pride and gratitude to have been given the opportunity to lead Pfeiffer Vacuum towards a successful future. I am looking forward to taking on this challenge, which will consist of consolidating "our Pfeiffer Vacuum's" position in the industry on a national and international level in the years ahead. It is important to me that each and every employee lives and embodies the values that our Company represents and that make us unique. For my fellow Board members and me, this means the passion for cutting-edge technology, customer satisfaction, team spirit, sustainability and ethical practices.

LETTER
FROM
THE CEO

I am confident that Pfeiffer Vacuum is capable of taking its place as the international market leader in vacuum technology. As our 2017 figures show, we are already off to a good start. This is further underpinned by the end-of-year balance of over € 127 million on the books – a 76 percent increase compared to the previous year. We could pat ourselves on the back and simply carry on “business as usual,” but that is not my approach.

While I believe our current growth strategy is working, my fellow board members and I are in full agreement that some fine-tuning is necessary. And we want to pick up the pace.

In my view, global developments in the fields of digitalization, alternative energy and biotechnology are among the most significant drivers of growth for our market. The digital revolution has created an enormous demand for memory chips, processors as well as displays for computers and mobile phones. Without vacuum and testing technology – particularly from our Company – production of these items would simply not be possible. If we are to keep up with the changing market, we have to be proactive. My colleagues from the Management Board and I have therefore devised a strategic program consisting of four main points. We aim to implement this strategy quickly.

Firstly, we must expand our production capacity, which we have already begun doing. Secondly, we will start to invest more in R&D to secure a better footing in terms of innovation. Thirdly, we are planning further investments in the expansion of our international presence with the ‘Global Footprint’ and ‘Global Sourcing’ programs. The focus here will lie on the Asian markets – particularly China – which are becoming increasingly significant for us. Fourthly, the rapid development in the field of digitalization should not only be embraced for new orders, but also to ensure that our Company is equipped with state-of-the-art IT. This includes integrating the new Industry 4.0 standards into our daily processes. It is my goal to advance the automation of all workflows and processes in each business unit. The buzzwords of today are among others ‘augmented reality’, the handling of ‘big data’ and the introduction of ‘cobots’ – industrial robots that work side by side with people. It is imperative to keep up with these trends.

However, we can only realize these ambitions by placing our employees at the center of our growth strategy. One step we are taking is integrating all colleagues at each of our locations and offering them a range of professional development opportunities. Our goal is to utilize the most modern collaborative work methods as well as global learning platforms.

All these aspects create the foundation for the efficiency, performance and ultimately for the quality we have come to expect of Pfeiffer Vacuum products and services.

Dear Shareholders, on behalf of the Management Board, I would like to thank you for the trust you have placed in us this last year. We hope to have you with us at our side in 2018 as we continue along the path towards further sustainable growth.



Dr. Eric Taberlet,
CEO of Pfeiffer Vacuum Technology AG



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Quality, reliability and advanced technological solutions – these are represented all around the world by the Pfeiffer Vacuum name. For years, the Company has belonged to the top players in the sector. The international orientation is a prerequisite for this success. Global cooperation and a worldwide presence are crucial for economic growth. Pfeiffer Vacuum carried out trailblazing acquisitions in 2017, further strengthening its position in strategically significant business areas.

INTERNATIONAL GROWTH

With the acquisitions carried out in 2017 of the companies ATC, Nor-Cal, and Dreebit, Pfeiffer Vacuum considerably expands its portfolio. New markets and groundbreaking synergies carry great potential for growth in promising markets.



In our globalized world, international cooperation and a worldwide presence are prerequisites for economic growth. For this reason, Pfeiffer Vacuum carried out trailblazing acquisitions in 2017, further strengthening its position with its takeover of three companies in strategically significant business areas.

ATC

Advanced Test Concepts (ATC), headquartered in Indianapolis, Indiana, U.S., is a provider of innovative leak testing systems. The company was founded in 1987 and first specialized in testing equipment for quality control in the automotive industry. From there, its portfolio of leak testing equipment and methods steadily developed into different areas. In 2000, ATC introduced a new leak detection technology onto the market: the Micro-Flow Sensor and Mass Extraction instruments. ATC holds numerous U.S.-American and international patents. With this acquisition of the corporation, Pfeiffer Vacuum consistently expands its existing product portfolio for leak detection and has gained groundbreaking leak detection technology with the patented Micro-Flow technology from ATC. With access to new applications and alternative technologies, Pfeiffer Vacuum will become the market leader in non-destructive testing. This business area is extremely attractive and high-margin, especially considering possible synergies in further development. ATC's research and production sites are located at headquarters in Indianapolis. Additionally, the company has sales and service branches in China, India, Mexico and Europe.

Dreebit

With the takeover of the vacuum service provider Dreebit, headquartered in Dresden, Germany, Pfeiffer Vacuum is putting emphasis on the growing area of service. Today, service already constitutes around 19 percent of the Company's total sales and is an increasingly important sales argument for the customers of Pfeiffer Vacuum. Dreebit GmbH was established in 2006 in Dresden with the goal of introducing its own technology for the generation of highly charged ions onto the market. This technology is reflected in the company's name: Dreebit stands for Dresden EBIT (EBIT= electron beam ion trap).

Steadily, further areas of business, such as vacuum service, plant construction, and software development, were tapped into. Today, Dreebit has some 50 employees at its locations in Dresden and Großröhrsdorf in Germany. With its high quality of service and process, Dreebit will be a central part of Pfeiffer Vacuum's future international service strategy.

Nor-Cal

The U.S.-American company Nor-Cal Products Inc. is a leading manufacturer of vacuum components with a special focus on the semiconductor industry. Furthermore, the company has identified a very interesting growing market for medical technology in North America. Nor-Cal was established in 1962 in Yreka, California, USA, and has production sites at its headquarters in Yreka and in Ho Chi Minh City, Vietnam. Altogether, the company has 335 employees worldwide. Its portfolio encompasses high-quality vacuum components, chambers, and valves for large international customers of the semiconductor, coating, and display sectors as well as leading universities and research institutes. With this transaction, Pfeiffer Vacuum aims to significantly strengthen its position in the very attractive market of vacuum components. The merger makes Pfeiffer Vacuum a leading supplier in the important, growing U.S. market. Our common American customers will profit from a wider product portfolio, new technological solutions, and a more comprehensive sales network. At the same time, the sales and marketing of Nor-Cal through Pfeiffer Vacuum's significantly stronger distribution network in Asia will make substantial sales increases possible.

SHARE PERFORMANCE

Share Highlights and Shareholder Structure

OVERVIEW OF HOLDINGS ACCORDING TO VOTING RIGHTS NOTIFICATION

in %	Dec. 31, 2017
Pangea GmbH, Maulburg	38.96
Allianz Global Investors, Frankfurt	4.99
Hakuto, Tokyo	3.48
The state of Norway	3.36

PFEIFFER VACUUM SHARE DATA

		2017	2016	2015
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 €	174.50	103.45	115.60
Lowest trading price	in €	87.80	75.28	65.69
Trading price at year-end	in €	156.15	88.82	93.55
Market capitalization at year-end	in € millions	1,540.84	876	923
Dividend per share	in €	2.00 ¹	3.60	3.20
Dividend yield	in %	1.3 ¹	4.1	3.4
Earnings per share	in €	5.46	4.77	4.25
Price/earnings ratio		28.6	18.6	22.0
Free float	in %	61.04	72.81	72.81

¹ Subject to consent of the Annual General Meeting

MANAGEMENT'S DISCUSSION AND ANALYSIS (EXCERPT)

2017 Course of Business

Profitability

- Net sales rose very noticeably by € 112.8 million or 23.8 % to € 587.0 million
- Organic growth and acquisitions as key revenue drivers
- Operating profit reached a record level with € 71.4 million, but special and one-time effects burdened the margin development
- Net income and earnings per share at the highest level in the Company's history: € 53.8 million, resulting in earnings per share at € 5.46
- Sales forecast therefore exceeded, earnings forecast fulfilled, margin forecast only partially achieved

The development of sales in the past fiscal year 2017 was significantly influenced by two factors. The continued high level of momentum, particularly in the semiconductor market, led to strong organic growth. Further positive impulses came from the coating industry. In addition, the Group's net sales also grew due to acquisitions. At the beginning of the year, another 75.1 % of the shares in Dreebit GmbH, Dresden, Germany (Dreebit) and all shares in Advanced Test Concepts LLC., Indianapolis, USA (ATC), were acquired. In addition, in June 2017, Pfeiffer Vacuum acquired Nor-Cal Products Holdings, Inc., Yreka, USA, and its subsidiaries (together Nor-Cal). After € 474.2 million in the previous year, sales in the past fiscal year thus amounted to € 587.0 million. This corresponds to an increase of € 112.8 million or 23.8 %. As a result, the noticeable increase in sales, formulated as a goal in last year's outlook without taking into account the acquisition of Nor-Cal, was also achieved even without the inclusion of the contributions concerning this matter. The substantiation of this forecast at the last Annual General Meeting after the Nor-Cal acquisition with an expected sales volume of € 520–540 million and also the updated forecast of overall sales of € 550–570 million was, in fact, slightly exceeded due to the constant demand dynamics in the semiconductor industry.

Sales by Region

SALES BY REGION				
	2017	2016	Change	
	in € millions	in € millions	in € millions	in %
Europe	222.5	188.9	33.6	17.8
Asia	220.3	174.6	45.7	26.2
The Americas	143.8	110.5	33.3	30.1
Rest of World	0.4	0.2	0.2	100.0
Total	587.0	474.2	112.8	23.8

Europe

Sales development in Europe was very satisfactory. Particularly noteworthy is the development in Germany. However, we were also able to achieve pleasing sales increases with our customers in the Netherlands and in England. Moreover, it should be borne in mind that in addition to organic growth in this region, the initial consolidation of Dreebit also had a positive influence on the development of sales.

Asia

As in the previous year, the considerable improvement in demand from the semiconductor industry particularly impacted the development of sales in the Asia region. This region has thus been on a stable path of growth since 2014, and this was particularly influenced in 2017 by our customers in South Korea and China. In addition, the development of sales was further enhanced by the already strong position of Nor-Cal in Asia, while demand in Japan declined slightly. The overall increase in sales of € 45.7 million also meant that the Asia region has virtually caught up with Europe in terms of its share of total sales.

The Americas

With an increase of € 33.3 million or 30.1 %, this region developed very positively under the influence of a variety of factors. Due to the strong focus placed on this region by Nor-Cal and ATC, which were acquired in the year under review, large portions of the increase can be attributed to external growth. At the same time, however, sales with our existing semiconductor customers in the United States also developed extremely well, while a downward trend was recorded in the Industry and Research & Development market segments. The development of sales in the Americas continued to be affected essentially by the development in the USA. Since there is still virtually no direct business by the German or French units in this region,

this development largely conformed to the previously explained course of sales according to segments. In line with the development of sales in North and South America, the share of total revenue also rose slightly from 23.3 % in the previous year to 24.5 % in the year 2017.

Sales by Product

SALES BY PRODUCT				
	2017	2016	Change	
	in € millions	in € millions	in € millions	in %
Turbo pumps	173.4	144.5	28.9	20.0
Instruments and components	160.6	105.5	55.1	52.2
Backing pumps	132.8	115.0	17.8	15.5
Service	107.8	99.7	8.1	8.1
Systems	12.4	9.5	2.9	29.8
Total	587.0	474.2	112.8	23.8

Turbo pumps

On the basis of an already high level of sales in 2016, sales in this product group again significantly increased by 20.0 %. The analytics market segment continued to account for the largest share of sales, but in 2017, it recorded somewhat more restrained momentum than the coating market or the semiconductor industry. With a share of total sales of 29.5 % (previous year: 30.5 %), the turbopumps remained the strongest product group in 2017 as well.

Instruments and components

With an increase of € 55.1 million or 52.2 %, the Instruments and Components product group showed the largest increase in both absolute and relative terms in the past fiscal year. This development was due principally to the acquisitions of Nor-Cal as well as to ATC. At the same time, however, we also recorded very pleasing organic growth, especially concerning the products of Pfeiffer Vacuum Components & Solutions GmbH and leak detectors. With a considerably increased share of 27.4 % of total sales (previous year: 22.3 %), this product group developed into an important mainstay of Pfeiffer Vacuum and now contributes even more to a very balanced distribution of sales revenue according to product groups.

Backing pumps

As in the previous year, so-called process pumps for the semiconductor industry, together with dry pumps for coating applications, made the largest contribution to the very good sales development in 2017. Accordingly, in regional terms, the increase resulted particularly from the Asian economic area, but also to a lesser extent from Germany. Due to the disproportionately low increase in comparison with the overall sales development, the share of total sales revenue also declined slightly from 24.2 % to 22.6 %.

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. Similarly to the previous years, the 8.1 % increase in 2017 also resulted primarily from increased sales to our semiconductor customers. This also included the customers of Dreebit, which was acquired in the year under review. As always in years with a good business development in the area of product sales, the increase in service revenues in 2017 was also less than proportional to the development of total revenues. Accordingly, the share of total sales also fell slightly from 21.0 % to 18.4 %.

Systems

Sales in this project-driven sector rose slightly from € 9.5 million in the previous year to € 12.4 million in the past fiscal year. A share of the sales development is also attributable to the purchase of Dreebit and its system division.

Sales by Market

SALES BY MARKET	2017		2016		Change	
	in € millions		in € millions		in € millions	
					in %	
Semiconductor	225.4	154.7	70.7	45.6		
Industry	129.1	115.9	13.2	11.4		
Analytics	100.1	92.1	8.0	8.7		
Coating	74.2	55.4	18.8	33.9		
Research & Development	58.2	56.1	2.1	3.7		
Total	587.0	474.2	112.8	23.8		

Semiconductor

The semiconductor industry continued to develop dynamically. In addition, the acquisition of Nor-Cal had a positive influence on the development of Pfeiffer Vacuum sales revenues in this market. The Group's main impetus in the semiconductor market came once again from Asia and the USA in 2017, but growth was also achieved in Europe. Overall, we recorded a very sharp increase in sales revenues of € 70.7 million, or 45.6 %.

Industry

Our most heterogeneous market segment includes a broad spectrum of customers ranging from the automotive and metalworking industries to the food industry. This market segment performed a sideways movement with a modest upward trend in fiscal 2017. In view of the heterogeneous nature of this market segment, positive and negative trends are balanced out extremely well, both in individual sectors and regionally. Nevertheless, the fact that we were able to record an increase in sales revenues of € 13.2 million is principally due to the acquisitions of Nor-Cal and ATC.

Analytics

Starting from an already high level of sales of € 92.1 million in the previous year, a further increase to € 100.1 million was achieved in the year under review. In regional terms, this was mainly due to the developments in Germany and Europe, while initial consolidation effects were not recorded. Our customers in this sector use the whole spectrum of products, even if the focus is on turbopumps. The ongoing high level of turbopump sales is substantially impacted by this market segment.

Coating

The solar industry remained of great importance for the coating market in general. Pleasing growth was attained here again in 2017, albeit less pronounced due to the solar industry than in previous years. In regional terms, Germany in particular stands out in this development.

Research & Development

At € 58.2 million, sales in the research & development market segment – our most stable market segment – lay slightly over the previous year's level (€ 56.1 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 a slightly more restrained start to the year and a stronger fourth quarter, which was also observed in 2017.

New orders and orders on hand

After new orders of € 481.9 million in 2016, this figure increased to € 642.1 million in 2017. This corresponds to a significant increase of € 160.2 million or 33.2 %. This pleasing development was recorded in virtually all product areas, but was also heavily influenced by the newly acquired companies. Based on an already strong fourth quarter of 2016, the year-to-date performance in 2017 was consistently good with even greater momentum in the fourth quarter of 2017. According to information from the first weeks of 2018, this momentum is continuing at least at the beginning of the current fiscal year. The book-to-bill ratio, the ratio between new orders and sales, stood at 1.09 in 2017 compared to 1.02 in the previous year.

The order volume on hand as at December 31, 2017 totaled € 1274 million and lay 76.2% over the previous year's figure of € 72.3 million. The visibility of orders on the basis of average sales in 2017 remains unchanged at about two months.

Earnings development

Gross profit and cost of sales

At € 376.9 million, the cost of sales increased by a total of € 83.1 million or 28.3 % in 2017 compared to the previous year's figure of € 293.8 million. This increase was predominantly due to the growth in sales revenues, which made it possible to realize economies of scale. However, the first-time recording of the newly acquired companies in the consolidated financial statements led to an increase in the cost of sales, in particular, due to the PPA effects. The PPA effects additionally recorded within the cost of sales in 2017 amounted to a total of € 4.8 million. Moreover, the change in the customer mix led to an additional increase in the cost of sales. Overall, the development of the cost of sales compared to the development of sales was disproportionately high, resulting in a slight decrease in the gross margin – the ratio of gross profit to sales revenues.

In absolute terms, the outstanding gross profit of € 180.5 million in the previous year increased again to € 210.0 million in the past fiscal year. The gross profit therefore increased by € 29.5 million or 16.4 %. The gross margin decreased for the reasons explained from 38.1 % in the previous year to currently 35.8 %. In addition to the effects referred to previously from the customer mix, economies of scale and PPA, the stronger euro during the course of the year also had a negative impact on the development of the gross profit and the gross margin.

Selling and administrative expenses

The total figure for selling and administrative expenses of € 112.3 million in 2017 was € 21.2 million higher than the previous year's figure (€ 91.1 million). This represents an increase of 23.3%. Despite the PPA effects recorded here, selling and marketing expenses increased less than sales (+ 14.4%), while administrative and general expenses developed disproportionately (+ 37.1%). The main reason for the increase in administrative and general expenses lay in, amongst others, the one-time advisory expenses in connection with the takeover offers and the company acquisitions made. Yet, the share of selling and administrative expenses of total sales declined and accounted for 19.1 % in the past fiscal year (previous year: 19.2 %).

Research and development expenses

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 for the future. Accordingly, a high share of sales was expended for research and development activities again in 2017. After 5.5 % in the previous year, this percentage share still amounted to 4.7 % as a result of the excellent development of sales. In absolute terms, the research and development expenses totaling € 27.8 million in the past fiscal year lay € 1.5 million over the previous year's figure of € 26.3 million. PPA effects were only of secondary importance.

Adjusted for funds obtained through grants for research and development services with an amount of € 3.1 million (previous year: € 4.4 million), the net research and development expenses totaled € 24.7 million (previous year: € 21.9 million).

Other operating income and expenses

As in previous years, other operating income and other operating expenses principally included the Group's foreign exchange gains and losses. The other operating income of € 10.3 million (previous year: € 10.8 million) in addition contained subsidies for expenses of € 3.1 million (previous year: € 4.4 million) and miscellaneous income of € 1.4 million. The other operating expenses of € 8.9 million (previous year: € 6.0 million) in 2017 also contained virtually only the foreign exchange losses recorded. The net foreign exchange results in 2017 at € – 3.0 million were well below the previous year's figure of € + 0.4 million.

Operating profit

With € 71.4 million in 2017, the highest ever operating profit of the long Company history was achieved. On the basis of a record turnover of € 587.0 million, the effects of the customer mix, the PPA effects and a decline in the foreign exchange results had a noticeable negative effect, however, on earnings in 2017. In contrast, positive effects on the operating profit resulted from economies of scale in the area of cost of sales and, despite some one-time effects, also from the slightly disproportionately low increase in selling and administrative expenses. Compared to 2016, the operating profit therefore increased significantly overall by € 3.4 million or 5.0 % from € 68.0 million. This corresponds to an operating profit margin, or EBIT margin, of 12.2 % (previous year: 14.3 %). Adjusted to account for the PPA

effects additionally included in the operating profit totaling € 6.2 million, the operating profit in 2017 would have amounted to € 77.6 million and have resulted in an EBIT margin of 13.2 %.

The amount of depreciation and amortization (for tangible and intangible assets) included in this figure was recorded at € 20.8 million for 2017 (previous year: € 20.4 million), which resulted in an operating profit before depreciation and amortization (earnings before interest, taxes, depreciation and amortization, or EBITDA) of € 92.2 million. After € 88.4 million in 2016, this represented an increase of € 3.8 million or 4.3 %. On the other hand, the operating profit per employee fell slightly.

Financial income

As a result of persistently low interest rates, the borrowing of financial liabilities in connection with the Nor-Cal acquisition in the middle of 2017 had only a marginal impact on the development of interest expenses. In contrast, financial income increased slightly in 2017. This resulted in a stable net financial income of € – 0.4 million.

Income taxes

In contrast to the higher earnings before taxes, tax expenses dropped from € 20.6 million to € 17.2 million in 2017. Accordingly, the relative burden in the form of the tax ratio declined. After 30.4 % in the previous year, this ratio was 24.2 % in 2017. A key factor in this development was the tax reform in the USA, which led to a corresponding reduction in deferred tax liabilities as a result of the reduced tax rates. In addition to these one-time accounting effects, we expect the fall in the tax rates to provide positive impulses in the future for the US economy as a whole and also for our activities there.

Net income

After already reaching a record high of € 47.0 million in the previous year for the highest net income in the Company's history, this figure increased significantly in 2017 again. The € 53.8 million achieved in this context represents an increase of € 6.8 million or 14.5 %. However, against the background of the PPA effects and the one-time expenses in connection with the takeover offers, which were recorded in net profit or loss, we remain satisfied with this development. Nevertheless, the net return on sales, i.e., the ratio of net income to sales, fell slightly from 9.9 % in the previous year to 9.2 %.

Earnings per share

Parallel to the net income, the earnings per share also improved significantly. Following € 4.77 in the previous year, a figure of € 5.46 was achieved in 2017 – also a new record in the history of the Company.

Financial position

The acquisitions during the reporting year were also key drivers in the development of the financial position of the Pfeiffer Vacuum Group, with the result that the balance sheet total increased from € 459.3 million as of December 31, 2016 to € 553.4 million at the end of the 2017 fiscal year. The biggest absolute change was recorded in the area of intangible assets, which, among other things, showed the goodwill resulting from the company acquisitions, as well as customer relationships and the technology acquired. In addition, fixed assets increased significantly by € 21.9 million to € 106.9 million, also as a result of the company acquisitions. However, the increased capital expenditure of the Pfeiffer Vacuum Group has also had an impact. Due to the positive business development and the very good sales performance, particularly at the end of the year, but also as a result of additions to the consolidated companies, inventories increased by € 31.7 million and trade accounts receivable by € 10.7 million compared to the respective previous year's figure. Cash and cash equivalents declined from € 110.0 million at the end of the 2016 financial year to € 97.4 million on December 31, 2017, particularly, as a result of the acquisitions and the associated repayment of financial liabilities. A detailed development analysis of cash and cash equivalents can be found in the section "Liquidity and cash flow" below.

The acquisition of Nor-Cal had an impact on the liabilities side of the balance sheet, in particular, the increase of the long-term financial liabilities by € 60.2 million. In addition, virtually all balance sheet items were characterized both by the increase in business volume and by the acquisitions. This applies, in particular, to trade accounts payable, which increased by € 9.9 million to € 40.8 million. Equity increased by € 5.3 million from € 315.6 million to € 320.9 million. This change resulted primarily from the net income generated in the reported year (€ 53.8 million), the dividend payment to shareholders of Pfeiffer Vacuum Technology AG (€ 35.5 million) and the net decrease of € 13.0 million of other equity components. The effects recorded here from foreign exchange conversion were significant for the develop-

ment of other equity components. Due to the marked increase in the balance sheet total with a moderate increase in equity, the equity ratio fell from 68.7 % to 58.0 %.

Nevertheless, Pfeiffer Vacuum continues to enjoy an exceptionally high equity base. The financial liabilities are below average compared to the balance sheet total and do not limit the Group's financial flexibility. Due to the organic growth and the acquisitions, the short-term working capital also rose by € 32.5 million. However, following the acquisition of Nor-Cal in the middle of 2017, the increase is slightly disproportionate compared to the development of sales.

Liquidity and cash flow

After € 63.6 million in 2016, the operating cash flow increased to € 71.4 million in 2017. This corresponds to a significant increase of € 7.8 million or 12.2 %. In particular, higher earnings before taxes (+ € 3.4 million) had a positive effect on the operating cash flow. While both income taxes paid and depreciation/amortization on fixed assets and intangible assets were at about the same level as in the previous year, the development of provisions and payables led to significant improvements in terms of operating cash flow. This was offset by cash outflows from the increase in inventories, which had a negative impact on operating cash flow of € 15.2 million (previous year: € 6.0 million). The cash flow per share increased from € 6.45 in 2016 to € 7.24 in the past 2017 fiscal year. The further increased level of this ratio continues to represent the ability of the Pfeiffer Vacuum Group to generate disproportionately high cash inflows as part of its operating activities.

Decisive for capital expenditures for investment activities in the year 2017 were net expenditures for acquisitions. With regard to these, a total of € 74.6 million was paid out in the past fiscal year. Furthermore, scheduled replacement investments and partly also of expansion investments took place to an increased extent, as planned. Capital expenditures rose accordingly from € 18.0 million in the previous year to € 27.7 million in the reporting year. These were to be seen against proceeds from the sale of property, plant and equipment amounting to € 0.2 million (previous year: € 0.6 million), with the result that after € 17.4 million in 2016, the overall cash outflow totaled € 102.0 million. Further information on the composition of capital expenditure can be found in the section "Capital expenditures and financing" that follows.

The borrowing of financial liabilities in the amount of € 70.0 million connected with the acquisition of Nor-Cal was the most significant factor for cash flow due to financing activities. The dividend payment to the shareholders of Pfeiffer Vacuum Technology AG amounting to € 35.5 million (previous year: € 31.6 million) and the redemption of financial liabilities (€ 15.2 million, previous year: € 20.5 million) were the other factors for cash flow from financing activities. Therefore, in fiscal 2017, a total cash inflow of € 19.3 million was to be recorded, after a total cash outflow of € 52.1 million was recorded for the previous year.

The overall cash-outflow, with consideration of currency effects, amounted to a total of € 12.6 million (previous year: € 5.4 million) due to increased expenditures for acquisitions and investments as well as the increased dividend payment with an operating cash flow increase of € 7.8 million and cash inflow from borrowing of financial liabilities. This led to a decrease in cash and cash equivalents by 11.5 % to € 97.4 million (previous year: 4.6 % to € 110.0 million). Even after borrowing of financial liabilities in the year 2017, the Company remains debt-free on a net basis. Furthermore, at the close of the fiscal year, Pfeiffer Vacuum had unused credit lines amounting to € 13.6 million (previous year: € 53.7 million).

The free liquidity 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. In the year 2017, Pfeiffer Vacuum SAS in France was included in this cash management system. 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. 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. The acquisitions of ATC and Dreebit were also financed from existing Group liquidity. Financial liabilities of € 70.0 million were taken out to finance the Nor-Cal acquisition. In the course of the year, € 10.0 million thereof and assumed financial liabilities of € 5.2 million were already repaid. Capital expenditures of € 27.7 million related predominantly to necessary reinvestments for machinery, plant and equipment, but also partly to expansion investments in Romania and the USA. Increased capital expenditure was geared to the strategic orientation of the Group. Despite the performed acquisitions, the forecasted investment volume of € 28.0 million for 2017 was practically achieved. With regard to the strategy supporting a three year investment plan as decided by the Management and Supervisory Boards please refer to the related remarks in the Outlook.

The balance sheet total of the Pfeiffer Vacuum Group has long demonstrated a very solid equity base. Although the equity ratio fell from 68.7 % at the end of the previous year to 58.0 %, it still shows an above-average figure for the mechanical engineering industry. The current assets ratio, as the ratio of current assets to current liabilities, amounted to 261 % (previous year: 305 %) and continued to reflect the sound financing concept and high credit rating of Pfeiffer Vacuum. The increased capital expenditures of € 27.7 million and a virtually unchanged depreciation/amortization volume of € 20.8 million in 2017 resulted in a depreciation expense ratio (ratio of capital expenditure to depreciation/amortization) of 133 % compared to 88 % in the previous year. These depreciation/amortization amounts remain high as a result of purchase price allocation (PPA).

Outlook

General economic development

Based on 3.7 % in 2017, the International Monetary Fund (IMF) expects moderately higher global economic growth of 3.9 % for 2018. For the emerging and developing countries as a whole, slightly higher growth is predicted, despite the forecasted growth slowdown in China. On a global scale, hopes are pinned on India and for 2018 also on Brazil and Mexico. With growth of 1.7 %, Russia is forecasted to grow at about the same level as the previous year. For industrialized countries, a growth of 2.3 % is expected, which is in line with the growth rate of 2017. At the same time, an improved growth dynamic is assumed for the U.S., which will be compensated by a somewhat more restrained development in Europe. The IMF sees a growth rate of 2.7 %, in particular, for the U.S. (previous year: 2.3 %) and for Europe 2.2 % (previous year: 2.4 %). For 2018, the IMF also expects a slightly lower growth rate in the price-adjusted gross domestic product of 2.3 % for Germany.

Mechanical engineering

The German Engineering Federation (VDMA) expects another strong growth of production in mechanical engineering in 2018 at the previous year's level of 3 %. At the beginning of 2018, capacity utilization in the domestic mechanical engineering industry was 87.9 %, well above the long-term industry average. The production curve shows a similar upward trend. Bottlenecks on machinery and systems are expected during the course of the year. The dynamism of the economy in the European mechanical engineering industry will continue with a focus on the core countries Germany and France.

For the US market, which is the industry's most important market, capital expenditures increased even further compared to 7 % in the previous year. The political developments and initial measures of the America First Policy and export tariffs limit a disproportionate development of exports to the United States. For the sales of machines in the Chinese market, a deceleration is expected compared to the previous year's increase of 24.2 %, which appears acceptable due to the trading volumes. For 2018, the VDMA expects growth to continue in the single-digit range.

As a whole, the industry's assessment is at a record level in terms of the overall economic situation and business development. Since the final quarter of 2017, the OECD leading indicator points to growth for the development of mechanical engineering in the EU. Corresponding forecasts show an identical picture for the development of production. Currently, the indicator shows a clearly positive development for the coming months at a value of 100.6. In the previous year, the comparative value was 100.4.

Order intake in the vacuum technology field increased by 1 % in real terms in the last quarter of 2017 compared to the previous year. This represents an increase of 3 percentage points compared to the development of the previous year. Overall, the forecasts for the mechanical engineering industry show another positive development of the high order and sales situation.

Development on the markets

Pfeiffer Vacuum divides its customers into the semiconductor, industrial, analytics, research & development and coating markets. Although the semiconductor market segment is generally considered to be cyclical, it has experienced a recovery since 2015, which reached a temporary high in 2017 with pronounced demand dynamics. Signals from the market and our key customers continue to suggest that this dynamics will continue beyond 2017, at least in the first half of 2018. There are unchanged good opportunities for the future: 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 daily life, even if this development is typically characterized by a strong cyclical nature.

In the industry market segment, order growth is mainly driven by new product developments and the general trend towards energy efficiency and resource conservation. Unchanged from previous years, Pfeiffer Vacuum also expects a comparatively stable growth trend here in the medium term. For the analytics market segment, Pfeiffer Vacuum expects moderate growth from the already high level of 2017. Analytical instruments are used in research and quality assurance activities in general industry and, particularly, in the semiconductor sector. The research & development market segment is dependent on political decisions concerning the funding of projects and research institutions. Here, we also estimate that sales will grow slightly in 2018.

The coating market segment includes customers in the fields of displays (LED, OLED), architectural glass, solar and many other areas of surface finishing. Demand in this sector has clearly gained momentum in 2017 and, according to our estimates, will show further sales improvement in 2018.

Sales development in 2018

Improved sales to customers in the semiconductor and coating industries combined with the company acquisitions made in the 2017 reporting year were the main drivers of revenue growth of 23.8 % to € 587.0 million in 2017. The sustained high demand throughout the year, in particular, from the semiconductor industry, was not expected at the beginning of 2017. So far, there are customer-specific and industry-specific signs of a continued strong level, at least in the first half of 2018. The visibility of orders remains unchanged at about two months. Following the Nor-Cal acquisition in mid-2017, this acquisition in 2018 will also be fully reflected in the sales volume.

For these reasons, and also in view of the outlined macroeconomic growth forecasts – both for the global economy and the engineering sector – Pfeiffer Vacuum expects a noticeable increase in sales for the entire year of 2018. However, this will be less pronounced than was the case in 2017 with a partly acquisition impacted increase of 23.8 %.

Earnings development

Continued optimization measures and the economies of scale resulting from the expected sales improvement as well as the disappearance of one-time expenses should contribute to a noticeable improvement in the operating results and the operating margin in 2018. However, this is offset by the PPA effects, which will also have an impact on the entire 2018 fiscal year. Financial expenses will increase as a result of borrowings related to the Nor-Cal acquisition. Nevertheless, due to the low level of interest rates, we expect the development of earnings before taxes to be largely in line with the development of the operating results. The Management Board and Supervisory Board have additionally decided on a new strategy, supporting a three year investment plan, providing for significantly increased annual investments, with a total volume of € 150.0 million. A materially higher share of the profits will be used to finance further growth in order to strengthen the technological leadership and competitiveness

of Pfeiffer Vacuum. These include, in particular investments in the expansion and modernization of production capacities, intensification of research and development, fostering of industry 4.0 efforts as well as the expansion of the Group's global footprint in Asia as a whole and China in particular. The investments included in the total volume which are currently planned for 2018 amount to some € 40.0 million for the entire Group.

Dividend

Management and Supervisory Boards propose to pay out a dividend of € 2.00 per share for the fiscal year 2017 (previous year: € 3.60 per share). With a distribution volume of some € 19.7 million, this would result in 36.6 % of the net profit of the Group being paid out to shareholders.

Forward-looking statements

The statements, estimations and other information in this outlook are based upon assumptions about future overall economy and industry-specific developments. The assumptions are based upon the latest information available at the time of publication. Due to the inherent risks and uncertainties relating to the probability of the statements and estimations made here, actual developments may differ significantly.

Pfeiffer Vacuum will also remain a highly profitable Company in 2018. For the current 2018 fiscal year, we see a positive development in the profitability, financial position and liquidity of the Group. Overall, we are confident that we will be able to achieve this goal on the basis of the business development in 2017, the acquisitions that have been carried out and the thereby strengthened strategic focus on clearly defined target markets, as well as the current discussions with our customers. Our well-trained, motivated employees remain an indispensable prerequisite for this.

CONSOLIDATED STATEMENTS OF INCOME

Pfeiffer Vacuum Technology AG

in K €	2017	2016
Net sales	586,962	474,244
Cost of sales	- 376,945	- 293,769
Gross profit	210,017	180,475
Selling and marketing expenses	- 63,313	- 55,330
General and administrative expenses	- 48,976	- 35,733
Research and development expenses	- 27,763	- 26,282
Other operating income	10,345	10,818
Other operating expenses	- 8,924	- 5,972
Operating profit	71,386	67,976
Financial expenses	- 693	- 662
Financial income	347	301
Earnings before taxes	71,040	67,615
Income taxes	- 17,192	- 20,583
Net income	53,848	47,032
Earnings per share (in €):		
Basic	5.46	4.77
Diluted	5.46	4.77

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

Pfeiffer Vacuum Technology AG

in K €	2017	2016
Net income	53,848	47,032
Other comprehensive income		
Amounts to be reclassified to income statement in future periods (if applicable)		
Currency changes	- 13,252	673
Results from cash flow hedges	588	- 588
Related deferred income tax effects	- 176	176
	- 12,840	261
Amounts not to be reclassified to income statement in future periods		
Valuation of defined benefit plans	394	- 7,023
Related deferred income tax effects	- 515	1,857
	- 121	- 5,166
Other comprehensive income net of tax	- 12,961	- 4,905
Total comprehensive income net of tax	40,887	42,127

CONSOLIDATED BALANCE SHEETS

Pfeiffer Vacuum Technology AG

in K€	Dec. 31, 2017	Dec. 31, 2016
ASSETS		
Intangible assets	110,814	67,579
Property, plant and equipment	106,949	85,053
Investment properties	448	472
Shares in associated companies	—	1,636
Other financial assets	3,840	4,508
Deferred tax assets	23,037	23,312
Total non-current assets	245,088	182,560
Inventories	113,384	81,737
Trade accounts receivable	80,061	69,352
Income tax receivables	3,159	1,112
Prepaid expenses	2,475	3,099
Other accounts receivable	11,792	11,430
Cash and cash equivalents	97,402	110,032
Total current assets	308,273	276,762
Total assets	553,361	459,322

in K€	Dec. 31, 2017	Dec. 31, 2016
SHAREHOLDERS' EQUITY AND LIABILITIES		
Share capital	25,261	25,261
Additional paid-in capital	96,245	96,245
Retained earnings	229,747	211,423
Other equity components	– 30,316	– 17,355
Equity of Pfeiffer Vacuum Technology AG shareholders	320,937	315,574
Financial liabilities	60,248	—
Provisions for pensions	50,034	51,188
Deferred tax liabilities	3,988	1,848
Total non-current liabilities	114,270	53,036
Trade accounts payable	40,814	30,896
Customer deposits	7,678	4,928
Other accounts payable	22,333	20,530
Provisions	39,894	29,767
Income tax liabilities	7,354	4,367
Financial liabilities	81	224
Total current liabilities	118,154	90,712
Total shareholders' equity and liabilities	553,361	459,322

CONSOLIDATED STATEMENTS OF CASH FLOWS

Pfeiffer Vacuum Technology AG

in K €	2017	2016
Cash flow from operating activities:		
Earnings before taxes	71,040	67,615
Adjustment for financial income/financial expenses	346	361
Financial income received	350	227
Financial expenses paid	- 1,053	- 1,020
Income taxes paid	- 17,441	- 17,165
Depreciation/amortization	20,824	20,421
Gain/loss from disposals of assets	- 31	- 58
Changes in allowances for doubtful accounts	528	129
Changes in inventory reserves	2,702	2,180
Other non-cash income and expenses	116	321
Effects of changes in assets and liabilities:		
Inventories	- 15,248	- 5,960
Receivables and other assets	- 7,005	- 9,768
Provisions, including pensions, and income tax liabilities	5,983	- 1,147
Payables, customer deposits	10,286	7,480
Net cash provided by operating activities	71,397	63,616

(Fortsetzung) in K €	2017	2016
Cash flow from investing activities:		
Payments for acquisitions	- 74,594	—
Capital expenditures	- 27,678	- 18,018
Proceeds from disposals of fixed assets	249	574
Net cash used in investing activities	- 102,023	- 17,444
Cash flow from financing activities:		
Proceeds from increase of financial liabilities	70,000	—
Dividend payments	- 35,524	- 31,577
Redemptions of financial liabilities	- 15,182	- 20,503
Net cash provided by/used in financing activities	19,294	- 52,080
Effects of foreign exchange rate changes on cash and cash equivalents	- 1,298	543
Net changes in cash and cash equivalents	- 12,630	- 5,365
Cash and cash equivalents at beginning of period	110,032	115,397
Cash and cash equivalents at end of period	97,402	110,032

FINANCIAL CALENDAR 2018

Please visit our online version at
group.pfeiffer-vacuum.com/financial-reports



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Thu, May 3

Earnings Call on
publication of Q1/2018 report

Wed, May 23

Annual General Meeting

Thu, Aug. 2

Earnings Call on
publication of H1/2018 report

Tue, Oct. 16

Capital Markets Day

Tue, Nov. 6

Earnings Call on
publication of 9M/2018 report