Vacuum is nothing, but everything to us

Consolidated Financial Statements 2004

as per § 292a HGB

PFEIFFER VACUUM

Pfeiffer Vacuum Technology AG

Financial Calendar 2005

> 2004 Annual Results
  Wednesday, March 30, 2005

> 1st Quarter 2005 Results
  Tuesday, May 3, 2005

> 2nd Quarter 2005 (1st Half Year) Results
  Tuesday, August 2, 2005

> 3rd Quarter 2005 (9-Months) Results
  Tuesday, November 8, 2005

> Annual Shareholders Meeting
  Wednesday, June 8, 2005, 2:00 P.M.,
  Wetzlar Municipal Hall

Contacts

Investor Relations
Gudrun Geissler
Berliner Strasse 43
35614 Asslar
Germany
Phone: +49 6441 802-314
Fax: +49 6441 802-365
Gudrun.Geissler@pfeiffer-vacuum.de
www.pfeiffer-vacuum.net

Investor Relations in the United States
Pfeiffer Vacuum Inc.
Michael Monroe
24 Trafalgar Square
Nashua, NH 03063-1988 U.S.A.
Phone: +1 603 578-6500
Fax: +1 603 578-6550
Mike.Monroe@pfeiffer-vacuum.com
www.pfeiffer-vacuum.net

Public Relations
Sabine Trylat
Berliner Strasse 43
35614 Asslar
Germany
Phone: +49 6441 802-169
Fax: +49 6441 802-883
Presse@pfeiffer-vacuum.de
www.pfeiffer-vacuum.net

Consolidated Financial Statements (U.S.GAAP)*

Contents

* This English-language version of the Annual Report is a courtesy translation of the audited and certified German-language Annual Financial Statements/Annual Report.

Balance Sheets in K €

December 31,	Note	2004	2003
Assets			
Cash and cash equivalents		44,986	29,432
Trade accounts receivable	1	18,967	22,224
Other accounts receivable	2	4,062	2,125
Inventories	3	14,865	20,360
Investment securities	5	9,000	–
Prepaid expenses		541	593
Deferred tax assets, net	9	774	1,016
Other current assets		564	920
Total current assets		**93,759**	76,670
Property, plant and equipment	4	24,098	25,734
Investment securities	5	1,002	9,000
Prepaid pension cost	11	2,817	2,819
Deferred tax assets, net	9	2,328	3,323
Goodwill	6	–	1,037
Other assets		1,229	1,197
Total non-current assets		**31,474**	43,110
Total assets		**125,233**	119,780
Liabilities and shareholders' equity			
Trade accounts payable		2,988	4,153
Accrued liabilities	8	9,645	8,758
Income tax liabilities	9	5,720	6,643
Customer deposits		1,911	1,051
Other payables		3,365	2,252
Total current liabilities		**23,629**	22,857
Convertible bonds	10	794	845
Accrued pension	11	1,455	1,041
Total non-current liabilities		**2,249**	1,886
Share capital		22,504	22,504
Additional paid-in-capital		2,821	2,821
Retained earnings		79,256	73,713
Accumulated other comprehensive loss		–2,788	–1,563
Treasury stock, at cost		–2,438	–2,438
Total shareholders' equity	12	**99,355**	95,037
Total liabilities and shareholders' equity		**125,233**	119,780

Statements of Income in K €

	2004[1)]	**2004**	2003
Net sales	156,222	156,222	144,018
Cost of sales	– 87,814	– 93,906	– 81,721
Gross profit	68,408	**62,316**	62,297
Selling and marketing expenses	– 19,767	– 20,021	– 20,941
General and administrative expenses	– 12,737	– 13,960	– 12,950
Research and development expenses	– 8,919	– 10,250	– 8,928
Operating profit	26,985	**18,085**	19,478
Interest expense	– 83	– 83	– 246
Interest income	1,247	1,247	1,803
Foreign exchange gain	377	377	2,142
Income before income tax	28,526	**19,626**	23,177
Current	– 10,238	– 6,868	– 11,544
Deferred	– 1,132	– 1,132	1,113
Income taxes	– 11,370	**– 8,000**	– 10,431
Net income	17,156	**11,626**	12,746
Earnings per share (in €)			
Basic	1.97	1.34	1.46
Diluted	1.97	1.34	1.46

1) Development of profitability adjusted to reflect the special item resulting from the closure of DVD business; this supplementary information is unaudited and not subject to mandatory reporting under U.S. GAAP.

Statements of Shareholders' Equity in K €

	2004	2003	2002
Shareholders' equity at January 1	95,037	92,508	83,402
Share capital			
Balance at January 1	22,504	22,504	22,504
Increase in share capital	–	–	–
Bonds converted	–	–	–
Balance at December 31	22,504	22,504	22,504
Additional paid-in capital			
Balance at January 1	2,821	2,821	2,821
Increase in share capital	–	–	–
Bonds converted	–	–	–
Balance at December 31	2,821	2,821	2,821
Retained earnings			
Balance at January 1	73,713	65,870	53,258
Net income	11,626	12,746	17,535
Dividends paid	– 6,083	– 4,903	– 4,923
Balance at December 31	79,256	73,713	65,870
Minimum pension liability			
Balance at January 1	– 64	– 656	–
Components of other comprehensive income	– 100	592	– 656
Balance at December 31	– 164	– 64	– 656
Cumulative translation adjustment			
Balance at January 1	– 2,049	1,560	4,628
Components of other comprehensive income	– 765	– 3,609	– 3,068
Balance at December 31	– 2,814	– 2,049	1,560
Unrealized gain/loss on hedges			
Balance at January 1	550	409	191
Components of other comprehensive income	– 360	141	218
Balance at December 31	190	550	409
Treasury stock			
Balance at January 1	– 2,438	–	–
Additions	–	– 2,438	–
Balance at December 31	– 2,438	– 2,438	–
Total shareholders' equity at December 31	**99,355**	95,037	92,508

Statements of Cash Flow in K €

	2004	2003
Net income	11,626	12,746
Depreciation	4,868	3,959
Loss on goodwill impairment	1,037	–
Loss on disposal of fixed assets	7	350
Change in deferred taxes	1,132	–1,113
Provision for doubtful accounts	2,563	824
Write-down of DVD inventories	5,276	–
Effects of changes in operating assets and liabilities		
Trade accounts receivable	451	–2,130
Other accounts receivable	–1,940	1,021
Inventories	82	1,480
Prepaid expenses	51	–65
Other current assets	268	–292
Other long-term assets	–303	–2,894
Accrued pension liabilities	356	4,482
Pension trust	2	–35,955
Trade and other accounts payable	–48	746
Income tax liabilities	–926	4,435
Accrued other liabilities	958	–181
Customer deposits	850	–859
Net cash provided by (used in) operating activities	**26,310**	–13,446
Proceeds from disposals of fixed assets	161	165
Capital expenditures	–3,400	–1,917
Purchase of investment securities	–1,002	–9,000
Net cash used in investing activities	**–4,241**	–10,752
Repayments of borrowings	–	–9,037
Dividend payment	–6,083	–4,903
Bonds payable repayments	–	–12
Purchase of treasury stock	–	–2,438
Net cash used in financing activities	**–6,083**	–16,390
Effects of foreign exchange rate changes on cash and cash equivalents	–432	–2,244
Net increase (decrease) in cash and cash equivalents	**15,554**	–42,832
Cash and cash equivalents at beginning of year	29,432	72,264
Cash and cash equivalents at end of year	**44,986**	29,432
Convertible bonds and employee loans (non-cash transaction)	–51	–154
Cash paid for interest	79	170
Cash paid for taxes	9,663	6,719

Schedule of Fixed Assets in K €

	Acquisition or Manufacturing Cost				
	Balance at Jan. 1, 04	Currency Change	Additions	Disposals	Balance Dec. 31, 04
Patents, licenses, trademarks, and similar rights and assets, including licenses for such rights and assets	2,609	– 19	245	110	2,725
Goodwill	1,227	–	–	–	1,227
Intangible assets – minimum pension liability	6	–	218	4	220
Intangible assets	**3,842**	**– 19**	**463**	**114**	**4,172**
Land, leasehold improvements and buildings including buildings on land owned by others	30,599	– 2	–	–	30,597
Other equipment, factory and office equipment	17,401	– 56	967	2,650	15,662
Technical equipment and machinery	25,031	– 4	2,186	1,324	25,889
Property, plant and equipment	**73,031**	**– 62**	**3,153**	**3,974**	**72,148**
Notes receivable	9,000	–	1,006	9,000*	1,006
Other assets	755	–	2	173	584
Investments and long-term financial assets	**9,755**	**–**	**1,008**	**9,173**	**1,590**
Total fixed assets	**86,628**	**– 81**	**4,624**	**13,261**	**77,910**

* Reclassification into current assets

Schedule of Fixed Assets in K €

Depreciation/Amortization					Net Book Value	
Balance at Jan. 1, 04	Currency Change	Additions	Disposals	Balance Dec. 31, 04	Dec. 31, 04	Dec. 31, 03
2,387	–19	192	110	2,450	275	222
190	–	1,037	–	1,227	–	1,037
–	–	–	–	–	220	6
2,577	**– 19**	**1,229**	**110**	**3,677**	**495**	**1,265**
13,718	–1	870	–	14,587	16,010	16,881
13,758	– 59	1,061	2,482	12,278	3,384	3,643
20,043	– 4	2,745	1,324	21,460	4,429	4,988
47,519	**– 64**	**4,676**	**3,806**	**48,325**	**23,823**	**25,512**
–	–	4	–	4	1,002	9,000
–	–	–	–	–	584	755
–	**–**	**4**	**–**	**4**	**1,586**	**9,755**
50,096	**– 83**	**5,909**	**3,916**	**52,006**	**25,904**	**36,532**

Notes to the Financial Statements

> The Company and Basis of Presentation

Pfeiffer Vacuum is a full-line manufacturer in the vacuum technology business offering solutions for a variety of customer applications relating to the generation, control and measurement of vacuum. The products developed and manufactured at the production facility in Asslar, Germany, include turbomolecular pumps, a range of backing pumps, such as rotary vane, Roots and dry pumps, complete pumping stations, as well as customized vacuum systems and components. Systems include the so called DVD business, a business unit that developed and produced manufacturing lines for DVDs and which is discontinued in January 2005.

Pfeiffer Vacuum distributes its products through a network of its own sales offices and subsidiaries, as well as independent marketing agents. Moreover, there are service support centers in most major industrial locations throughout the world. The Company's primary markets are located in Europe, the United States and Asia.

The consolidated financial statements of Pfeiffer Vacuum Technology AG and its subsidiaries ("the Company" or "Pfeiffer Vacuum") have been prepared in accordance with United States Generally Accepted Accounting Principles (U.S. GAAP).

§ 292a of the German Commercial Code ("HGB") obviates the requirement to prepare consolidated financial statements according to HGB if consolidated financial statements prepared according to international accounting standards are of the same value and meaningfulness as consolidated accounts prepared in accordance with HGB. U.S. GAAP is one of the recognized international accounting standards.

Pfeiffer Vacuum presents its consolidated financial statements in euros (€).

> Consolidated Companies and Principles of Consolidation

All companies which Pfeiffer Vacuum Technology AG directly or indirectly controls are consolidated. The Company is considered to control an entity if it either directly or indirectly holds a majority of the voting rights and can therefore exercise a controlling influence. In addition to Pfeiffer Vacuum Technology AG, two German (2003: 2) and twelve foreign subsidiaries (2003: 14) are fully consolidated in the Company's consolidated financial statements.

In the year 2004, Pfeiffer Vacuum Systems (International) AG, Zuzwil, Switzerland, was merged with Pfeiffer Vacuum (Schweiz) AG, Zurich, Switzerland. Pfeiffer Vacuum Asia Ltd., Hong Kong, China, ceased all business activities and was closed.

All material intercompany receivables and liabilities, gains and losses, revenues and expenses are eliminated as part of the consolidation process.

Pfeiffer Vacuum Group

Subsidiaries	Location	Holdings %	Share-holders' Equity* K €	Net Income/ Loss* K €	Net Sales* K €
Pfeiffer Vacuum Technology AG	D-Asslar				
Pfeiffer Vacuum GmbH	D-Asslar	100.0	36,049	27,377**	114,425
Pfeiffer Vacuum Austria GmbH	A-Vienna	100.0	913	328	8,098
Pfeiffer Vacuum (Schweiz) AG	CH-Zurich	99.4	1,847	1,098	8,787
Pfeiffer Vacuum Systems GmbH	D-Asslar	100.0	2,427	–17,760**	4,688
Pfeiffer Vacuum France SAS	F-Buc	100.0	1,051	46	4,779
Pfeiffer Vacuum Ltd.	GB-Newport	100.0	1,068	329	5,356
Pfeiffer Vacuum Nederland B.V.	NL-De Meern	100.0	2,235	440	6,700
Pfeiffer Vacuum Scandinavia AB	S-Upplands Väsby	100.0	1,691	458	4,819
Pfeiffer Vacuum Inc.	USA-Nashua	100.0	11,084	1,790	33,316
Pfeiffer Vacuum Holding B.V.	NL-De Meern	100.0	2,319	43	–
Pfeiffer Vacuum Belgium N.V.	B-Temse	100.0	1,208	123	3,363
Pfeiffer Vacuum Italia S.p.A.	I-Rho	100.0	2,066	182	4,566
Pfeiffer Vacuum (India) Ltd.	IND-Secunderabad	73.0	463	84	625
Pfeiffer Vacuum Korea Ltd.	KR-Yoinin City, Kyungki-Do	75.5	1,306	304	4,306

* Amounts reflect the local individual U.S. GAAP year-end reports

** Before profit or loss transfer

Use of Estimates The preparation of the consolidated financial statements requires management to make estimates and assumptions that affect the amounts of assets and liabilities on the date of the financial statements and the reported amounts of revenues and expenses during the reporting period that are reported in the financial statements and accompanying notes. These estimates and assumptions could differ from the actual results.

Reclassifications Certain prior-year amounts have been reclassified to provide comparability with the presentation of the current-year financial statements.

Foreign Currency Translation The financial statements of the Company's foreign subsidiaries have been translated into euros (€) in accordance with Statement of Financial Accounting Standards ("SFAS") 52, "Foreign Currency Translation." The functional currency of all of the Company's foreign subsidiaries is the applicable local currency in which that entity conducts its business. When translating foreign functional-currency financial statements, year-end exchange rates are applied to the assets and liabilities, while average annual exchange rates are applied to income statement accounts. The resulting translation adjustments are recorded as accumulated other comprehensive income (loss).

Foreign currency transaction gains and losses are recorded as a separate line item in the income statement.

The exchange rates of the significant currencies of non-euro countries included in the Company's consolidated financial statements were as follows:

Exchange rate at December 31 (per euro):

		2004	2003
U.S.A.	USD	1.36400	1.26100
Great Britain	GBP	0.70710	0.70700
Switzerland	CHF	1.54370	1.55900
Sweden	SEK	9.02000	9.07100

Annual average exchange rate (per euro):

		2004	2003
U.S.A.	USD	1.24335	1.13087
Great Britain	GBP	0.67869	0.69185
Switzerland	CHF	1.54415	1.52064
Sweden	SEK	9.12603	9.12279

> Accounting and Valuation Methods

Revenue Recognition Revenue for product sales is recognized when persuasive evidence of an agreement exists, delivery has occurred, the price is fixed or determinable and collection of the related receivable is reasonably assured. If product sales are subject to customer acceptance, revenues are not recognized until customer acceptance has occurred. For product sales which require the Company to install the product at the customer location, revenue is recognized when the equipment has been delivered to and installed at the customer location, provided the product sale does not qualify for separation from the service element and recognition of revenue upon delivery of the product. For contracts including multiple deliverables meeting the separation criteria of Emerging Issues Task Force ("EITF") No. 00-21, "Accounting for Revenue Arrangements with Multiple Deliverables," the Company allocates the total arrangement consideration to each separate unit of accounting based on the relative fair values of the deliverables in each unit of accounting and recognizes revenue based on the Company's revenue recognition policy applicable to each separate unit of accounting. Revenues from services are recognized when the underlying services are performed.

Warranty accruals are established in the period in which the related product revenue is recognized. Management's estimates are primarily based on an assessment of specific exposure and historical experience by product type.

Cash and Cash Equivalents The Company considers all highly liquid investments with an original maturity of three months or less to be cash equivalents.

Trade Accounts Receivable Trade accounts receivable are recorded at the invoiced amount and typically do not bear interest. The Company continually assesses the adequacy of the allowance for doubtful accounts receivable and makes adjustments as appropriate based on both specific identification and aging distribution of receivables. The Company writes off accounts only after all means of collection have been exhausted.

Investment Securities Debt securities which the Company has the ability and positive intent to hold to maturity are carried at amortized cost. Investments and maturities of less than one year are classified as current.

Derivatives and Hedging Transactions The Company recognizes derivative financial instruments either as assets or liabilities at their fair values. Changes in the fair value of derivatives that do not qualify for hedge accounting are recognized through current income. If the derivative is a hedge, depending on the nature of the hedge, changes in the fair value of the underlying transaction are either offset against changes in the fair value of the hedging instrument in current income or changes in the fair value of the derivative are recognized in other comprehensive income until the hedged item is recognized in income.

Inventories Inventories are stated at the lower of cost or market. Cost is determined using the first-in, first-out-method.

Property, Plant and Equipment Property, plant and equipment are stated at cost and depreciated over the estimated useful lives of the assets on a straight-line basis. The following useful lives are used:

• Buildings	20 – 50 years
• Machinery and equipment	3 – 15 years

The Company reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If impairment indicators exist, the Company performs the required analysis and records impairment charges in accordance with SFAS 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." Repair and maintenance costs are expensed as incurred.

Goodwill and Other Intangible Assets Effective January 1, 2002, goodwill and intangible assets other than goodwill which are determined to have indefinite useful lives are no longer amortized, but are subject to impairment analysis annually or if an event occurs or circumstances indicate the carrying amount may be impaired. Goodwill impairment testing is performed at the reporting unit level. The fair value of each reporting unit is determined using a discounted cash flow analysis and compared to the carrying value. If the carrying value exceeds the fair value, then a possible goodwill impairment exists and further evaluation is required. Arising impairment charges are recorded in the income statements.

The Company amortizes intangible assets with finite useful lives on a straight-line basis over their respective estimated useful lives to their estimated residual values. Estimated useful lives for software, patents, licenses and other similar rights generally range from three to five years.

Accounting for Stock-Based Compensation The Company applies the intrinsic value-based method in accordance with Accounting Principles Board ("APB") Opinion 25 "Accounting for Stock Issued to Employees" for its stock-based compensation plans. Under APB 25, compensation expense is recorded on the measurement date only if the current market price of the underlying stock exceeds the exercise price (see Note 10).

Pensions The measurement of pensions is based upon the projected unit credit method in accordance with SFAS 87, "Employers' Accounting for Pensions." As permitted under SFAS 87, changes in the amount of either the projected benefit obligation (for pension plans) or plan assets resulting from experience different than that assumed and from changes in assumptions can result in gains and losses not yet recognized in the Company's consolidated financial statements. The expected return on plan assets is determined based on the expected long-term rate of return on plan assets and the fair value or market-related value of plan assets. Amortization of an unrecognized net gain or loss is included as a component of the Company's net periodic benefit plan cost for a year if, as of the beginning of the year, that unrecognized net gain or loss exceeds 10 % of the greater of 1) the projected benefit obligation or 2) the fair value or market-related value of the plan's assets. In such case, the amount of amortization recognized by the Company is the resulting excess divided by the average remaining service period of active employees expected to receive benefits under the plan.

In December 2003, the FASB issued SFAS 132, "Employers' Disclosure about Pensions and Other Postretirement Benefits – an amendment of FASB No. 87, 88 and 106," which requires additional disclosures about the Company's defined benefit plans and other postretirement obligations, plan assets, net costs and net cash flows. For non-U.S. plans, adoption is permitted for fiscal years ending after June 15, 2004. The adoption of SFAS 132 had no material impact on the Company's consolidated financial statements.

Research & Development All research and development costs are expensed as incurred.

Advertising All advertising and promotional costs are expensed as incurred.

Income Taxes Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and tax loss carry-forwards. The effect of a change in tax laws on deferred tax assets and liabilities is recognized in the results of operations in the period in which the new tax rates are enacted. A valuation allowance is recorded to reduce the carrying amounts of deferred tax assets unless it is more likely than not that such assets will be realized.

> Adoption of New Accounting Rules

On December 16, 2004, the FASB issued FASB Statement 123 (revised 2004), "Share-Based Payment," which is a revision of FASB Statement 123, "Accounting for Stock-Based Compensation." Statement 123(R) supersedes APB Opinion 25, "Accounting for Stock Issued to Employees," and amends FASB Statement 95, "Statement of Cash Flows." Generally, the approach in Statement 123(R) is similar to the approach described in Statement 123. However Statement 123(R) requires all share-based payments to employees, including grants of employee stock options, to be recognized in the income statement based on their fair values. Pro forma disclosure is no longer an alternative. Statement 123(R) must be adopted in the first interim or annual period beginning after June 15, 2005. Early adoption will be permitted in periods in which financial statements have not yet been issued. The Company plans to adopt Statement 123(R) on July 1, 2005, using the modified-retrospective method, restating only the prior interim periods of 2005. As permitted by Statement 123, the Company currently accounts for share-based payments to employees using Opinion 25's intrinsic value method and, as such, generally recognizes no compensation cost for employee stock options. Accordingly, the adoption of Statement 123(R)'s fair value method will not have a significant impact on the Company's result of operations, and it will have no impact on its overall financial position. The impact of adoption of Statement 123(R) cannot be predicted exactly at this time because it will depend on levels of share-based payments granted in the future. However had Pfeiffer Vacuum adopted Statement 123(R) in prior periods, the impact of that standard would have approximated the impact of Statement 123 as described in the disclosure of pro forma net income and earnings per share in Note 10 to its consolidated financial statements. Statement 123(R) also requires the benefits of tax deductions in excess of recognized compensation cost to be reported as a financing cash flow, rather than as an operating cash flow as required under current literature. This requirement will reduce net operating cash flows and increase net financing cash flows in periods after adoption. While the company cannot estimate what those amounts will be in the future (because they will depend upon, among other things, when employees exercise stock options), the amounts of operating cash flows recognized in prior periods for such excess tax deductions were K € 475 and K € 678 in 2004 and 2003, respectively.

In December 2003, the FASB issued FIN 46R, "Consolidation of Variable Interest Entities," which addresses how a business enterprise should evaluate whether it has a controlling financial interest in an entity through means other than voting rights and accordingly should consolidate the entity. FIN 46R replaces FASB Interpretation No. 46, "Consolidation of Variable Interest Entities," which was issued in January 2003. The provisions of FIN 46R had to be applied to special-purpose entities as of December 31, 2003, and to all other entities as of March 31, 2004. The Company does not hold variable interests in special-purpose entities. The adoption of FIN 46R did not have any impact on the Company's consolidated financial statements.

> Notes to the Consolidated Balance Sheets and Consolidated Statements of Income

1. Trade Accounts Receivable

Trade accounts receivable consist of the following (in K €):

	2004	2003
Trade accounts receivable	21,838	23,977
Allowance for doubtful accounts	– 2,871	– 1,753
Total trade accounts receivable, net	**18,967**	22,224

Dec. 31

The Company provides credit in connection with its normal course of business to a wide variety of customers. The Company performs ongoing credit evaluations of its customers and establishes allowances for identified credit risks. The trade accounts receivable have a remaining term of less than one year.

Summary of activity in the allowance for doubtful accounts (in K €):

	2004	2003
Balance at beginning of year	1,753	1,738
Provisions	2,563	824
Accounts written off	– 298	– 233
Collections on previously reserved accounts	– 1,147	– 576
Balance at end of year	**2,871**	1,753

At December 31, 2004, € 1.8 million of the allowance for doubtful accounts related to collectibility issues in the Germany operating segment, specifically to DVD business.

2. Other Accounts Receivable Other accounts receivable primarily consist of income taxes receivable from the German tax authorities in the amount of approximately € 3.0 million for overpaid income taxes, and Value Added Tax claims in the amount of approximately € 0.6 million.

3. Inventories

Inventories consist of the following (in K €):

	2004	2003
Raw materials	7,021	7,648
Work-in-process	9,992	8,848
Finished products	8,876	8,749
Reserves	–11,024	–4,885
Total inventories, net	**14,865**	20,360

Dec. 31

Summary of activity in the inventory reserves (in K €):

	2004	2003
Balance at beginning of year	4,885	5,194
Provisions	6,608	336
Inventory written off	–469	–645
Balance at end of year	**11,024**	4,885

At December 31, 2004, approximately € 5.3 million of inventory reserves related to the withdrawal from DVD business.

4. Property, Plant and Equipment and Intangible Assets The development of the Company's fixed assets is shown in the consolidated statement of fixed assets. In 2004, the Company recorded impairment charges of approximately € 1.4 million related to its withdrawal from DVD business.

5. Investment securities

Investment securities consist of the following (in K €):

	2004			2003		
	Amortized Cost	Fair Value	Unrealized Holding Loss	Amortized Cost	Fair Value	Unrealized Holding Loss
Current investment securities	9,000	8,982	18	–	–	–
Non-current investment securities	1,002	1,000	2	9,000	8,705	295
Total investment securities	**10,002**	**9,982**	**20**	**9,000**	**8,705**	**295**

Dec. 31

The Company considers these impairments to be temporary given the short duration of the respective declines in value and because no facts or circumstances have indicated that such declines are other than temporary. The Company expects the repayment of its investment security amounting to € 9.0 million according to the notes of the investment by the issuer through 2005 and reclassified it from non-current to current.

6. Goodwill In 2004, the Company recorded goodwill impairment charges in the amount of approximately € 1.0 million due to the impairment of its capitalized goodwill.

7. Long-Term Debt The Company had no long-term debt as of December 31, 2004. Pfeiffer Vacuum and its subsidiaries have various lines of credit available for operating purposes in the amount of approximately € 11.8 million (2003: € 12.3 million). For guarantee commitments, an amount of € 0.9 million (2003: € 0.8 million) was drawn on these credit lines as of December 31, 2004.

8. Accrued Liabilities

Accrued liabilities consist of the following (in K €):

	2004	2003
Warranty	2,993	3,625
Employee-related expenses	5,912	4,492
Other	740	641
	9,645	8,758

Dec. 31

Employee related costs primarily include accruals for vacation pay, bonuses, accrued overtime and service anniversary awards.

Warranty provisions consist of the following (in K €):

	2004	2003
Balance at beginning of year	3,625	3,774
Provisions	1,346	2,555
Utilization	– 864	– 2,070
Releases	– 1,114	– 634
Balance at end of year	**2,993**	3,625

9. Income Taxes Under current German corporate tax law, taxes on income are composed of corporate taxes, trade taxes and an additional surtax, which amount to a combined tax rate of 37.9 % for the German companies for the year 2004 and 39.5 % for the year 2003.

Effective January 1, 2002, a corporation and trade tax entity with corresponding profit and loss transfer agreements was established for the consolidated German companies.

Income before income tax was taxable in the following jurisdictions (in K €):

	2004	2003
Germany	12,334	12,868
Outside Germany	7,292	10,309
	19,626	23,177

The components of the provision for income taxes are as follows (in K €):

	2004	2003
Current		
Germany	4,464	8,783
Outside Germany	2,404	2,761
	6,868	11,544
Deferred		
Germany	754	– 800
Outside Germany	378	– 313
	1,132	– 1,113
Provision for income taxes	**8,000**	10,431

The Company's net deferred tax assets were as follows (in K €):

	2004	2003
Deferred tax assets		
Pensions	2,029	2,966
Inventory	607	430
Intangible assets	400	518
Tax loss carry-forward	207	532
Derivatives	–	348
Other	285	349
	3,528	5,143
Deferred tax liabilities		
Property, plant and equipment	– 308	– 693
Derivatives	– 116	–
Other	– 2	– 111
	– 426	– 804
Net deferred tax assets	**3,102**	4,339

Dec. 31

Net deferred income tax assets and liabilities in the consolidated balance sheet (in K €):

	2004	2003
Deferred taxes, short-term		
Deferred tax assets	892	1,127
Deferred tax liabilities	– 118	– 111
	774	1,016
Deferred taxes, long-term		
Deferred tax assets	2,636	4,016
Deferred tax liabilities	– 308	– 693
	2,328	3,323
Deferred tax assets, net	**3,102**	4,339

Dec. 31

Reconciliation of income taxes determined using the statutory rate to actual income taxes provided:

	2004	2003
Income tax expenses at German statutory rate	7,432	9,146
Lower foreign tax rates	– 78	– 507
Loss carry-forwards of a non-German subsidiary	– 325	532
Taxes due to new legislation on distributed earnings in prior years	–	865
Taxes due to dividend payments	11	336
Tax debits/credits due to tax filings in prior years	– 24	– 3
Impairment of Goodwill	393	–
Non-deductible expenses	281	245
Other	310	– 183
Provision for income taxes	**8,000**	10,431

As of December 31, 2004, the Company had net operating loss carry-forwards of a non-German subsidiary amounting to € 0.8 million which may be used to offset future taxable income and will expire if not used by 2008.

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. In making this assessment, management considers the scheduled reversal of deferred tax liabilities, projected future taxable income and tax planning strategies. Based on the level of historical taxable income and projections for future taxable income over the periods in which the deferred tax assets are deductible, management believes that it is more likely than not that the Company will realize the benefits of these deductible differences.

Provision has not been made for additional taxes on undistributed earnings of non-German subsidiaries. These earnings are considered to be permanently reinvested and could become subject to additional tax if remitted or deemed remitted as dividends; however calculation of such additional tax is not practical. Following recent changes in German law, dividends from non-German subsidiaries are only 95 % tax-exempt, i.e. 5 % of dividend income is not deductible from income for corporate tax purposes for fiscal years beginning in 2003. Management estimates that the effects of this new rule will be negligible, since the German investments are consolidated for tax purposes. In addition, a 5 % income inclusion has also been introduced on capital gains realized from the disposition of shares in German and non-German corporations, which applies to fiscal years ending in 2004 and thereafter. Management does not expect significant additional income taxation.

Beginning in 2004, the Company was subject to a tax audit of the German tax authorities. This tax audit is still not finalized. Pfeiffer Vacuum does not expect material effects from the outcome on its Consolidated financial statements.

10. Stock-Based Compensation

Employee Participation Program, Term: 2000 through 2005 Within the scope of an employee participation program, in July 2000 the Company issued 4,400 convertible bonds having an aggregate principal amount of € 0.6 million to members of management and salaried employees of the Company in Germany and other countries. The conversion feature entitles the bearer to convert each bond into 50 no-par ordinary shares of the Company. The conversion price is based upon 110 % of the average closing price on the Frankfurt Stock Exchange for the last ten trading days prior to the resolution by the Management Board to issue the convertible bonds. Accordingly, the conversion price for the July 2000 issue was set at € 48.03 per share. There were 120,000 option shares relating to convertible bonds for the 2000 issue outstanding at December 31, 2004, and December 31, 2003. Fair value at the date of grant was € 10.64 per ordinary share option.

Beginning in July 2002, each holder of convertible bonds could convert up to 30 % of such bonds to ordinary shares, in July 2003 up to 60 % and in July 2004 up to 100 %. The final conversion date is December 9, 2005. Conversion is only possible during specific periods of time.

The convertible bonds bear interest at 6 % p.a. and are redeemable at their principal amount on December 10, 2005, unless previously converted or called. The bonds may be called by the Company at their principal amount upon termination of employment. Employees were given the opportunity of financing the purchase of the convertible bonds through interest-bearing employee loans. These loans bear interest at the same fixed rate as the bonds, have identical terms, are classified as other non-current assets in the balance sheet and are repayable upon conversion of the bonds or if the bonds are called by the Company upon termination of employment. There is a right of setoff for both principal and interest between the loan and the bond.

As of December 31, 2004, employees had returned 2,000 of these convertible bonds having an aggregate principal value of € 256,000 and repaid the corresponding employee loans.

Employee Participation Program, Term: 2002 through 2007 Within the scope of a further employee participation program, on July 7, 2002, the Company issued 4,600 convertible bonds having an aggregate principal amount of € 0.6 million to members of management and salaried employees of the Company in Germany and other countries. The conversion feature entitles the bearer to convert each bond into 50 no-par ordinary shares of the Company.

The conversion price is based upon 110 % of the average closing price on the Frankfurt Stock Exchange for the last ten trading days prior to issuance. The conversion price for the July 2002 issue was set at € 42.86 per share. There were 190,000 and 210,000 option shares relating to the convertible bonds for the 2002 issue outstanding at December 31, 2004, and December 31, 2003, respectively. Fair value at the date of grant was € 10.35 per ordinary share option.

Each holder of convertible bonds can convert up to 30 % of such bonds to ordinary shares subsequent to the Annual Shareholders Meeting in 2004, up to 60 % following the Annual Shareholders Meeting in 2005 and up to 100 % following the Annual Shareholders Meeting in 2006. The final conversion date is December 9, 2007. Conversion is only possible during specific periods of time.

The convertible bonds bear interest at 6 % p.a. and are redeemable at their principal amount on December 10, 2007, unless previously converted or called. The bonds may be called by the Company at their principal amount upon termination of employment. Employees were given the opportunity of financing the purchase of the convertible bonds through interest-bearing employee loans. These loans bear interest at the same fixed rate as the bonds, have identical terms, are classified as other non-current assets in the balance sheet and are repayable upon conversion of the bonds or if the bonds are called by the Company upon termination of employment. There is a right of setoff for both principal and interest between the loan and the bond.

As of December 31, 2004, employees had returned 800 of these convertible bonds having an aggregate principal value of € 102,400 and repaid the corresponding employee loans.

Summary of option shares related to the convertible bonds:

	Number of Shares	Weighted Average Exercise Price per Share
Convertible shares outstanding at January 1, 2002	220,000	48.03
Granted	230,000	42.86
Exercised	–	–
Forfeited	– 55,000	46.62
Convertible shares outstanding at December 31, 2002	395,000	45.22
Granted	–	–
Exercised	–	–
Forfeited	– 65,000	47.63
Convertible shares outstanding at December 31, 2003	330,000	44.74
Granted	–	–
Exercised	–	–
Forfeited	– 20,000	42.86
Convertible shares outstanding at December 31, 2004	**310,000**	**44.86**

At December 31, 2004 and 2003, respectively, 177,000 and 72,000 option shares were exercisable. The Company did not recognize any compensation expense for the stock-based compensation awards in the years 2004 and 2003.

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option pricing model, with the following assumptions being used for grants in 2002 and 2000: Risk-free interest rates ranging from 4 to 5 %; expected lives ranging from 4.5 to 6 years; expected dividend yield of 1 to 2 %; and expected volatility ranging from 30 to 40 %.

SFAS 123 requires disclosure of pro forma information regarding net income and net income per share as if the Company had accounted for its stock-based compensation to employees using the fair value method. For pro forma purposes using the fair value method, the Company's net income would have been K € 10,948 (2003: K € 11,721) and net income per share would have been € 1.26 (2003: € 1.34).

11. Pension Benefits and Similar Obligations Most employees in Germany, the United States of America, the Netherlands and Belgium are entitled to receive pension benefits from the Company, which are covered by defined benefit plans in their respective countries. In the United States, the Company had established a pension fund for all employees and a supplemental pension fund for executives (SERP), a non-qualified, non-funded pension plan for certain officers. In Germany, the Company sponsors two pension plans covering most employees. Consistent with German requirements and practice, the Company's German plans traditionally were unfunded. In the year 2003, the Company established Pfeiffer Vacuum Trust e. V. ("the Trust") to fund its pension plans. The Trust is an independent, bankruptcy-protected, separate legal entity whose sole purpose is to act in a fiduciary capacity as trustee for the assets held and has invested the contributions in a mutual fund managed by an unrelated third party. The pursued target allocation consists of equities (up to 30 %) and of fixed-income securities and cash (at least 70 %).

Total pension expense for all plans included the following components (in K €):

	2004	2003
Service cost	923	970
Interest cost	2,164	2,163
Expected return on assets	– 2,081	– 73
Amortization of		
Unrecognized net actuarial losses	21	46
Unrecognized prior service cost	73	77
Other	21	–
Net pension cost	**1,121**	3,183

The following table presents the funded status and amount recognized in the consolidated financial statements for all defined benefit pension plans (in K €):

	2004	2003
Change in benefit obligation		
Beginning projected benefit obligation	39,870	38,012
Service cost	923	970
Interest cost	2,164	2,163
Benefit payments	–1,614	–1,479
Gains/losses	3,286	–1,223
Other	–	1,863
Impact of foreign currency exchange rate differences	–141	–436
Ending projected benefit obligation	**44,488**	39,870
Accumulated benefit obligation	**40,329**	36,142
Change in plan assets		
Fair value at beginning of year	38,229	989
Return on plan assets	2,235	171
Company contributions	1,087	36,099
Benefits paid	–1,614	–41
Other	–	1,204
Impact of foreign currency exchange rate differences	–101	–193
Fair value at end of year	**39,836**	38,229
Underfunded status of plans	–4,652	–1,641
Unrecognized actuarial loss	6,035	2,963
Unrecognized prior service cost	219	292
Unrecognized transition obligation	249	276
Prepaid pension cost, net	**1,851**	1,890

Dec. 31

Amounts recognized in balance sheets (in K €):

	2004	2003
Intangible assets – minimum pension liability	220	6
Accrued pension	–1,455	–1,041
Prepaid pension costs	2,817	2,819
Other comprehensive income – minimum pension liability	269	106
Net amount	**1,851**	1,890

Dec. 31

Significant actuarial assumptions used:

	2004	2003
Germany		
Weighted average discount rate	5.00 %	5.50 %
Rates of increase in compensation levels	2.75 %	2.75 %
Expected long-term rate of return on assets	5.50 %	5.50 %
United States, Netherlands and Belgium		
Weighted average discount rate	5.00 – 6.25 %	4.75 – 6.25 %
Rates of increase in compensation levels	3.00 %	3.00 %
Expected long-term rate of return on assets	4.50 – 7.50 %	4.50 – 7.50 %

The measurement date used to determine pension benefits is December 31.

The Company's expected long-term rate of return on assets is based on premium corporate bonds and the appreciation of shares held by the Trust.

Projected future benefit payments to retired employees of the German operations (in K €):

2005	1,607
2006	1,707
2007	1,878
2008	2,013
2009	2,106
	9,311

Composition of plan assets (in K €):

	2004		2003	
	K €	%	K €	%
Equity securities	2,947	7.4	636	1.7
Fixed-income securities	32,580	81.8	126	0.3
Fund shares	–	–	240	0.6
Cash and cash equivalents	2,600	6.5	36,007	94.2
Other	1,709	4.3	1,220	3.2
	39,836	**100.0**	38,229	100.0

Dec. 31

Defined Contribution Plans Employees of the Company in certain other countries are covered by defined contribution plans. Generally, contributions are based upon a percentage of the employee's wages or salaries. The costs of these plans charged to operations amounted to K € 636 for 2004 and K € 642 for 2003.

12. Shareholders' Equity

Treasury Stock At the Shareholders Meeting on June 16, 2004, the shareholders authorized the Company to acquire treasury stock. The number of ordinary shares that may be repurchased (subject to statutory limitation) is limited to a maximum of 10 % of all issued shares. No amounts were repurchased pursuant to this as of December 31, 2004. Treasury stock, amounting to approximately € 2.4 million, was repurchased in 2003 and consists of 100,076 ordinary shares valued at cost.

Dividend restriction Under German law, dividends are payable only out of unappropriated retained earnings as reported in the unconsolidated parent-only financial statements of Pfeiffer Vacuum Technology AG, prepared in accordance with German accounting principles. As of December 31, 2004, a total of € 38.3 million was reported as retained earnings under German law.

At the Annual Shareholders Meeting, the Management and Supervisory Boards will propose that the shareholders participate in the Company's success in the form of a dividend in the amount of € 0.40 per share (2003: € 0.40). In addition, a bonus dividend in the amount of € 0.50 per share (2003: € 0.30) will be proposed in order to distribute a portion of the Company's cash assets to its shareholders.

Accumulated Other Comprehensive Income

The change in shareholders' equity, which did not have any impact on income, developed as follows (in K €):

	2004	2003
Balance at beginning of year	– 1,563	1,313
Change in unrealized gains from derivative instruments for capitalizing payment flows (cash flow hedges)	– 592	228
Tax effect from derivative instruments	232	– 87
Change in derivative instruments	**– 360**	141
Currency translation differences	**– 765**	– 3,609
Pension valuation differences (minimum pension liabilty)	– 162	967
Tax effect from pension valuation	62	– 375
Change in pension valuation	**– 100**	592
Balance at end of year	**– 2,788**	– 1,563

13. Commitments and Other Financial Obligations The Company has entered into leases and maintenance agreements which expire at various dates, some of which are renewable. Certain of these agreements contain rent escalation clauses. The table below presents the maximum amount of the contractual commitments as of December 31, 2004, classified by the periods in which the contingent liabilities or commitments expire.

Lease and Maintenance Contracts (in K €):

	Total	Less than 1 year	1 – 3 years	3 – 5 years	More than 5 years
Operating leases	4,491	1,680	1,806	620	385
Maintenance contracts	50	34	16	–	–
Total contractual obligations	**4,541**	**1,714**	**1,822**	**620**	**385**

Rental expenses amounted to € 1.5 million for the year 2004 and € 1.6 million for the year 2003.

The Company did not have capital lease obligations in the years 2004 or 2003.

As of December 31, 2004, the Company's exposure under guarantees amounted to K € 90 (2003: K € 91). These guarantees relate to residential rentals. The terms of the guarantees are unlimited; as a general rule, they are called upon termination of the individual rental leases.

14. Segment Information The Company's business operations include the development, manufacture, sale and service of vacuum pumps, vacuum measurement, components and analysis equipment and instruments, as well as vacuum systems. The subsidiaries in the individual countries are independent legal entities with their own management which distribute the products and provide services. Accordingly, the Company identifies its operating segments geographically. Due to the similarity of their economic characteristics, including nature of products sold, type of customers, methods of product distribution and economic environment, the Company aggregates its European subsidiaries outside Germany into one reportable segment, "Europe (excluding Germany)."

The Company evaluates the success and performance of each segment on the basis of its income before income tax.

Segment information relating to the Company's geographic locations at Dec. 31, 2004 (in K €):

	Germany	Europe (Excluding Germany)	United States	Rest of World	Others/ Consolidation	Group
Net sales	121,899	46,468	33,316	4,931	– 50,392	156,222
Third party	72,295	46,371	33,265	4,291	–	156,222
Intercompany	49,604	97	51	640	– 50,392	–
Operating profit	10,951	3,920	2,657	487	70	18,085
Financial income	–	–	–	–	1,541	1,541
Income before income tax	10,951	3,920	2,657	487	1,611	19,626
Total assets	85,978	21,306	15,626	2,323	–	125,233
Long-lived assets	23,122	777	56	143	–	24,098
Capital expenditures	2,861	437	9	93	–	3,400
Depreciation/amortization	4,350	408	35	75	–	4,868

Segment information relating to the Company’s geographic locations at Dec. 31, 2003 (in K €):

	Germany	Europe (Excluding Germany)	United States	Rest of World	Others/ Consoli-dation	Group
Net sales	108,440	46,774	32,870	3,557	–47,623	144,018
Third party	65,974	42,459	32,716	2,869	–	144,018
Intercompany	42,466	4,315	154	688	–47,623	–
Operating profit	13,762	6,103	4,148	406	–4,941	19,478
Financial income	–	–	–	–	3,699	3,699
Income before income tax	13,762	6,103	4,148	406	–1,242	23,177
Total assets	84,694	19,633	13,442	2,011	–	119,780
Long-lived assets	24,690	771	86	187	–	25,734
Capital expenditures	1,501	328	30	58	–	1,917
Depreciation/amortization	3,217	518	162	62	–	3,959

Sales by product are as follows (in K €):

	2004	2003
Turbopumps	59,447	53,571
Measurement and analysis equipment, components	42,529	35,218
Service	25,011	25,931
Backing pumps	19,732	18,040
Systems	9,503	11,258
Total	**156,222**	144,018

15. Financial Instruments

Fair value The carrying amounts of financial instruments such as cash and cash equivalents, current accounts receivable and payable, approximate their fair value due to the short-term maturities of these instruments.

Foreign Currency Exchange Hedging The Company enters into foreign currency forward contracts to hedge the exposure of its forecasted sales against fluctuations in foreign currency exchange rates. Approximately 38 % of the Company’s net sales are denominated in currencies other than the euro. These forward contracts are limited to U.S. dollars.

The Company has assessed these contracts to be highly effective hedges against the impact of foreign exchange rate changes on its sales. The Company does not engage in speculative hedging for investment purposes. The maturities for all forward contracts are aligned with the date the sales are anticipated to occur. As of December 31, 2004, and December 31, 2003, no contracts held by the Company had a maturity date greater than one year.

The Company's contracts are marked to market at period end using quoted forward rates. The fair values recorded in other assets for the periods ended December 31, 2004, and December 31, 2003, were K€ 551 and K€ 898, respectively, and recognized a gain of K€ 190 and K€ 550, respectively, in 2004 and 2003 net of income tax effect of K€ 116 and K€ 348, in other comprehensive income.

Beginning in 2004, the Company hedged its U.S. dollar cash flows through currency options.

As of December 31, 2004 and 2003, the notional amounts of the forward contracts were € 15.4 million and € 7.7 million, respectively. All realized gains and losses upon settlement of foreign currency forward contracts are recorded in the income statement as foreign exchange gains/losses.

The Company performs ongoing credit evaluations of the parties to these contracts and enters into contracts only with well-established financial institutions.

16. Earnings per Share

The following table presents the computation of basic and diluted earnings per share:

	2004	2003
Net income (in K€)	11,626	12,746
Denominator for basic earnings per share – weighted-average shares	8,690,524	8,750,201
Stock-based compensation	–	–
Denominator for diluted earnings per share – adjusted weighted-average shares and assumed conversions	8,690,524	8,750,201
Earnings per share (in €)		
Basic earnings per share	1.34	1.46
Diluted earnings per share	1.34	1.46

The stock options granted to employees were antidilutive because the exercise price is higher than the quoted price of the Company's ordinary shares.

17. Subsequent Events In January 2005, the Management Board of Pfeiffer Vacuum decided to withdraw from the unprofitable DVD business and recorded in its financial statements for the year ended December 31, 2004, expenses amounting to approximately € 8.9 million (fixed assets € 1.4 million, inventories € 5.3 million, goodwill € 1.0 million, redundancy program € 1.2 million).

> Major Differences between German and U.S. Accounting Principles

The Company utilizes the exempting provision of § 292a, HGB, which states that consolidated financial statements and consolidated management reports may be prepared according to international accounting standards. The consolidated financial statements have been prepared in accordance with the current U.S. GAAP. They are consistent with the 4th and 7th EU Directives based on the interpretation according to DRS No. 1 of the German Accounting Standards Committee. For the Company, the accounting, valuation and consolidation methods under U.S. GAAP differ from the German provisions of the HGB primarily in the following respects:

Differences in the Principles of Consolidation Goodwill and Acquisition Accounting Goodwill represents the excess purchase price over the fair market value of assets acquired and liabilities assumed. U.S. GAAP state that goodwill must be capitalized and, in contrast to HGB, may no longer be amortized over its estimated useful life. Instead, it must be tested for impairment at least once a year and, if necessary, written down. Offsetting goodwill against shareholders' equity, which is an option under § 309, of the HGB, is not permitted.

Differences in Accounting, Valuation and Reporting Impairment Reversals of Long-Lived Assets If an asset has been written down due to impairment pursuant to § 253 (2) and (3), of the HGB, the requirement to reinstate its original value under § 280 (1), of the HGB, states that this value may not be retained if the reasons for the write-down no longer apply at a later balance sheet date. In such cases, the asset must be written up. Under U.S. GAAP, the carrying amount of a long-lived asset must be reviewed for impairment if events or changed circumstances indicate that the asset's carrying amount may exceed its fair value. Impairment is measured by comparing the estimated future discounted pre-tax cash flows of the related asset to its carrying amount. SFAS 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of," states that original values may not be reinstated even if the reasons for such a write-down no longer apply.

Leasing Agreements The treatment of leasing agreements is not explicitly governed under HGB. As a general rule, the opinions relating to the treatment of leasing agreements for tax purposes issued by the tax authorities are therefore applied in the accounting of leasing agreements. With a view to these opinions, leasing agreements are generally written in such a manner that the items leased are capitalized by the lessor.

There are extensive rules under U.S. GAAP governing the accounting of leasing transactions, in particular SFAS 13, "Accounting for Leases." Under these rules, a fundamental distinction is made between capital leases and operating leases, depending upon which party to the transaction enjoys the major opportunities and bears the major risks resulting from the employment of the item leased and is thus viewed as being its beneficial owner. In the case of a capital lease, the leased item is capitalized by the lessee as its beneficial owner; in the case of an operating lease, it is capitalized by the lessor.

Valuation of Inventories Inventories are valued at cost of acquisition or production. Pursuant to § 255 (2), HGB, cost of production can include a proportionate share of administrative costs, depreciation as well as certain expenses for fringe benefits, in addition to the mandatory elements of cost of inputs and prime cost. U.S. GAAP (ARB 43), on the other hand, mandates that production-related production overheads, depreciation as well as product-related administrative costs be included in the cost of production, in addition to direct costs.

Mark-to-Market The imparity principle under HGB states that unrealized losses must be accounted for, but not unrealized profits. Under U.S. GAAP, however unrealized profits are also reported, which is reflected in the following items: Under HGB, assets and liabilities denominated in foreign currency are valued at the lower of cost or market as of the balance sheet date. Under U.S. GAAP SFAS 52, "Foreign Currency Translation," however all assets and liabilities denominated in foreign currency must be translated at their market rate at the balance sheet date, so that unrealized profits are recognized in income.

Deferred Taxes § 306, HGB, states that deferred taxes must be recognized for all temporary differences between the carrying amounts in the tax accounts and those reported in the consolidated financial statements (timing concept); they are computed at the current tax rate. This recognizes timing differences between the tax accounts and the statutory financial statements (Financial Statements I) as well as the financial statements prepared for inclusion in the consolidated accounts (Financial Statements II). The effects of consolidation measures that are subsequently reversed over the course of time also have to be recognized. HGB rules do not permit deferred taxes to be recognized for either quasi-permanent differences or losses carried forward.

U.S. GAAP (SFAS 109, "Accounting for Income Taxes") state that deferred taxes must be recognized for temporary differences arising between the tax bases of assets or liabilities and their carrying amounts in the consolidated financial statements, with quasi-permanent differences being classified as temporary (temporary concept). As under HGB, this recognizes differences between the tax accounts and Financial Statements I and II and the effects of consolidation measures. Unlike HGB, it only recognizes such differences if they are temporary. Additionally, deferred taxes are recognized on net operating loss (NOL) carry-forwards to the extent that their future tax benefit or utilization can be realized. Tax is computed at the rate applicable under current law to retained earnings at the balance sheet date, taking into account future known changes to the tax rate. If deferred tax assets are unlikely to be realized, a valuation allowance is reported.

Other Provisions and Accruals In addition to the requirement to report provisions for liabilities and impending losses pursuant to § 249 (1), the HGB rules also state that provisions and accruals may be recognized for certain expenses that do not constitute an obligation toward a third party (expense provisions pursuant to § 249 (2), HGB). Provisions and accruals are calculated pursuant to § 253 (1), HGB, in accordance with customary commercial principles and the prudence principle.

The reporting of provisions and accruals under U.S. GAAP (CON 6, "Elements of Financial Statements," and SFAS 5, "Accounting for Contingencies") is much more restrictive. Accruals and provisions may only be established if an obligation toward a third party exists, there is a likelihood of its crystallization and its amount can be reasonably estimated. Expense provisions are not permitted. When such provisions and accruals are accounted for, the most probable value is reported; if there is a range of equally probable values, the lowest one is reported.

Provisions for Pensions and Similar Obligations Under both HGB and U.S. GAAP, provisions for pension liabilities are formed on the basis of expected, discounted future payments. Under HGB, the entry age normal method is generally applied pursuant to § 6a of the German Income Tax Act. Under U.S. GAAP, the projected unit credit method is used in accordance with SFAS 87, "Employers' Accounting for Pensions." This method takes into account future salary increases and inflation-related pension adjustments. Furthermore, the discount rate used is the prevailing market interest rate, generally the long-term capital market rate rather than the 6 % used under German tax law and generally applied to financial statements prepared according to HGB.

The minimum pension liability recognized under SFAS 87 satisfies the provision requirements under HGB. However additions are not always recognized as an expense under U.S. GAAP; the full amount is accounted for by reporting an intangible asset or by offsetting it against shareholders' equity ("Other comprehensive income"). This is not permitted under HGB.

In the case of funded plans, certain qualifying assets are deducted from the total amount of the liability or, if there is an excess of assets over the liability, capitalized. This is also not permitted under the HGB.

Calculation of the old-age part-time benefit liabilities under U.S. GAAP is based upon signed contracts between the Company and its individual employees. HGB accounting principles require that accrual be made for the aggregate amount of all employees who are legally entitled to utilize the old-age part-time retirement option. Under U.S. GAAP, the increase is regularly expensed over the remaining period of service. Under HGB, the increase must be accrued in full at the beginning of the part-time retirement and recorded as expense.

Reporting Requirements The structure of the balance sheets and the statements of income satisfies the requirements of the 4th and 7th EU Accounting Directives, with the exception of minority interests.

In order to ensure compliance with the EU Accounting Directives, certain supplemental information has been provided in the Notes, such as the Consolidated Schedule of Fixed Assets, which is not required by U.S. GAAP.

> Additional Information

The following information has been added to the Company's consolidated financial statements in order to exempt the Company from the obligation to prepare consolidated accounts in accordance with German law.

Personnel Expenses

Personnel expenses were as follows (in K €):

	2004	2003
Wages and salaries	37,924	38,172
Social security, pension and other benefit cost	7,994	8,926
Thereof for pensions	1,527	3,085
Total	**45,918**	47,098

Number of Employees The number of employees was as follows at December 31, 2004 and 2003:

Number of Employees:

	2004	2003
Annual average		
Salaried employees	500	529
Wage earners	250	248
Total	**750**	777
Balance sheet date		
Salaried employees	495	509
Wage earners	250	252
Total	**745**	761

Management Board

- Wolfgang Dondorf (Chairman), Diplom-Ingenieur
- Manfred Bender, Diplom-Betriebswirt (since April 1, 2004)
- Amandus Waterkamp, Diplom-Ingenieur, Diplom-Kaufmann (until March 9, 2004)

The aggregate amount of compensation paid by the Company during the year ended December 31, 2004, to all members of the Management Board of the Company, as a group, for services in all capacities was € 1.3 million, including a fixed element amounting to € 0.8 million and a variable element amounting to € 0.5 million. A pension accrual in the amount of € 3.3 million (2003: € 3.0 million) exists for members of the Management Board.

Supervisory Board

- Dr. Michael Oltmanns (Chairman), Attorney at Law and Tax Advisor
  Further supervisory board posts:
  – HPC AG, Weinheim (Chairman)
  – Merkur Bank KGaA, Munich (Vice Chairman)
  – Jetter AG, Ludwigsburg (Chairman)
  – Scholz AG, Essingen (Chairman)
- Prof. Dr. Klaus-Jürgen Kügler (Vice Chairman),
  Professor at the Giessen-Friedberg Technical University
- Michael J. Anderson, Investment Banker
- Edgar Keller (Employee Representative), Commercial Staff Member
- Günter Schneider (Employee Representative),
  Chairman of the Employee Council
- Götz Timmerbeil, Certified Public Accountant and Tax Advisor

The aggregate amount of fixed compensation paid to all members of the Supervisory Board was K € 75; no variable compensation element is agreed.

Exempting Provision under § 264 (3), HGB Pfeiffer Vacuum GmbH, Asslar, which is included in the consolidated financial statements of Pfeiffer Vacuum Technology AG, has made use of the exempting provision under § 264 (3), HGB.

Corporate Governance Pursuant to § 161 of the German Stock Corporation Act, the Management and Supervisory Boards issued the statement of compliance for the year 2004 in December 2004. With the following exceptions, this statement reflects compliance with the recommendations of the German Corporate Governance Code Government Commission:

- No agreement was able to be reached in negotiations with our D & O insurance carrier to obtain a lower premium if a deductible is arranged. The Company will therefore not arrange for a deductible. A deductible would not improve the overall motivation and sense of responsibility of the Management and Supervisory Boards. Both the Management and Supervisory Boards work to the benefit of the enterprise (Point 3.8 of the Code).
- The compensation paid to the members of the Management Board has in the past been and presently still is stated collectively in the Notes to the Consolidated Financial Statements (Point 4.2.4 of the Code).
- The members of the Supervisory Board have in the past received and presently still receive fixed compensation, which does not contain any performance-related variable income elements. Their compensation is stated collectively in the Notes to the Consolidated Financial Statements (Point 5.4.5 of the Code).

The full text of the Code is available at the following internet address:
www.corporate-governance-code.de

NYSE Corporate Governance Due to its listing on the New York Stock Exchange, Point 303A.11 of the New York Stock Exchange Listed Company Manual requires Pfeiffer Vacuum Technology AG to disclose the differences between U.S. corporations listed on the New York Stock Exchange and Pfeiffer Vacuum Technology AG in questions relating to corporate governance.

We have provided an English-language summary comparison of the differences on our internet site under Investor Relations/Corporate Governance.

Asslar, February 24, 2005

Management Board

Wolfgang Dondorf Manfred Bender

The 2004 fiscal year was characterized first and foremost by two factors: A significant improvement in operating profit from our core business and an impact on profitability stemming from our withdrawal from DVD business.

With our highly profitable core business of "vacuum pumps," we succeeded in increasing sales by € 12.2 million from € 144.0 million to € 156.2 million in a business environment that was characterized by a weakness of the dollar and a lack of impetus from the development of the global economy. Through the cost-reduction measures that were initiated the year before and the higher percentage of sales accounted for by products with high gross margins, we succeeded in largely compensating for the € 8.9 million negative effect stemming from our withdrawal from DVD business. As a result, the Company's operating profit declined only by € 1.4 million from € 19.5 million to € 18.1 million. New orders and orders on hand stood at an encouraging level: New orders were up by € 5.1 million from the year before to € 155.3 million, while orders on hand totaled € 26.3 million (2003: € 27.2 million).

Developments in the DVD market as well as the poor track record of payments in this market ultimately necessitated this withdrawal. Revaluations of assets in connection with the withdrawal have already been incorporated in the Consolidated financial statements for the year ended December 31, 2004. Overall, this special item had a € 8.9 million impact on our Statement of Income. Without this special item, our operating profit would have risen by 38.5 % from the year before, to € 27.0 million.

Despite these negative special items, we earned net income of € 11.6 million, which was down by only € 1.1 million from the previous year's level of € 12.7 million.

Overall Economic Environment

> **World economy**

Following years of stagnation, it is now fair to speak of a moderate upswing. In 2004, the world economy grew by 4.8 %, stemming in particular from the economic development of the threshold and developing countries. The relatively poor development of the industrialized nations is primarily attributable to the high price of oil and the weak U.S. dollar.

> **United States**

At 4.4 %, economic growth in the United States in 2004 lagged slightly behind the growth rate of the world economy overall. Aside from the continued low level of interest rates, this growth was fueled primarily by government demand in the armaments sector.

> **Europe**

Economic development in Europe tended to be sluggish by comparison with the development of the world economy. While the two major economies, France and Germany, saw only modest economic improvement, the countries of Eastern Europe, in particular, posted strong growth rates. Europe saw a 2.4 % change in gross domestic product for 2004. The noticeable upswing in Germany during the initial months of 2004 flattened in the third quarter. Moreover, the strong euro curtailed the upward trend of export business to countries outside the Euro Zone. Overall, there was a 1.7 % change in gross domestic product in Germany.

> **Asia**

The growth of the world economy in 2004 resulted in particular from the development of the Asian economic region. Leaving out of consideration the Japanese economy, which grew at 2.9 %, gross domestic product rose by 7.5 % here. The market with the strongest growth continues to be the People's Republic of China with growth of 9.1 %.

> **Vacuum industry**

As in the year 2003, the vacuum industry was dominated by the influence of the world economy in 2004. Overall, the industry posted modest growth year on year.

Business in Fiscal 2004

> Overview

Net sales in fiscal 2004 totaled € 156.2 million. Following net sales of € 144.0 million the year before, this represents an increase of € 12.2 million or 8.5 %. Demonstrating Pfeiffer Vacuum's outstanding competitive position, especially since the development of sales revenues was negatively impacted in the amount of € 3.3 million due to the weak U.S. dollar.

Operating profit for the 2004 fiscal year (€ 18.1 million) was down by € 1.4 million, or 7.2 %, from the year before. The EBIT margin amounts to 11.6 % (2003: 13.5 %). This decline was attributable to the above-indicated special effect resulting from our withdrawal from DVD business. On the other hand, the consolidated group's profitability benefited from our rigorous cost management as well as from the high percentage of sales of high-margin products. Overall, our highly profitable operating business enabled us to compensate for all but € 1.4 million of the special items, i.e. nearly in full.

Including financial income (€ 1.5 million; 2003: € 3.7 million), income before taxes totaled € 19.6 million. Given the previous year's level of € 23.2 million, this represents a decline of € 3.6 million or 15.3 %.

Overall, Pfeiffer Vacuum generated net income of € 11.6 million. Following € 12.7 million the year before, this represents a decline of € 1.1 million or 8.8 %.

> Regional sales distribution

The total net sales of € 156.2 million generated in 2004 breaks down as follows among the regions:

Sales by Region 2001 – 2004 (in € millions)

	Europe (Excluding Germany)	Germany	United States	Asia	Other Regions
2001	56.6	48.0	44.8	19.4	1.3
2002	50.9	40.5	35.8	22.4	1.3
2003	48.3	40.4	32.8	21.6	0.9
2004	**49.3**	**47.0**	**33.1**	**25.7**	**1.1**

Europe (excluding Germany) In Europe, Pfeiffer Vacuum recorded a rise in sales of € 1.0 million, or 2.1 %, to € 49.3 million, thus running counter to the general trend of development in this region. The major factor that contributed to this development was higher sales in Switzerland, which rose from € 6.5 million to € 8.7 million, and in Austria, which rose from € 6.4 million to € 8.1 million. In France, sales declined from € 6.4 million to € 4.8 million.

Germany The development of sales in Germany was encouraging as well. Sales advanced by 16.3 % from € 40.4 million the year before to € 47.0 million. Accounting for 48.8 % of European sales, Germany continues to be the largest market within Europe.

In spite of a renewed weakening of the U.S. dollar, sales rose in the United States

United States In the United States, sales rose by € 0.3 million from € 32.8 million to € 33.1 million, although the weakness of the U.S. dollar had a negative € 3.3 million impact on the development of sales. Accounting for 21.2 % of total sales, the United States continues to rank second. Expressed in U.S. dollars, 2004 sales rose by 11.5 % from US$ 37.2 million in 2003 to US$ 41.4 million.

Asia and other regions In the Asian region, sales development in fiscal 2004 was positive, too, with sales advancing by € 4.1 million to € 25.7 million and a growth rate of 18.4 % (2003: –3.7 %). With sales of € 12.9 million (2003: € 11.5 million), Japan is our most important market in Asia, followed by Korea (€ 4.2 million for the fiscal year; 2003: € 2.6 million). The percentage of consolidated sales accounted for by Asia rose from 15.0 % the year before to 16.4 %. The sales generated in other regions (€ 1.1 million; 2003: € 0.9 million) accounted for 0.7 % of total sales (2003: 0.6 %).

> Sales by product

Accounting for 38.1 % of total sales (2003: 37.2 %), the turbopump continues to be our bestseller. In absolute numbers, sales rose by € 5.9 million from € 53.6 million to € 59.5 million. Sales of measurement and analysis equipment and vacuum components increased by 20.8 % from € 35.2 million to € 42.5 million. Overall, this product group accounts for 27.2 % of total sales (2003: 24.4 %) and thus ranks second. Service business generated sales of € 25.0 million (2003: € 25.9 million). Sales of backing pumps ranked fourth, rising by € 1.7 million from € 18.0 million to € 19.7 million. The backing pump portfolio includes rotary vane, Roots and dry pumps. Systems business produced sales of € 9.5 million in fiscal 2004 (2003: € 11.3 million). This represents a decline of € 1.8 million and 6.1 % of total sales.

Sales by Product 2001 – 2004 (in € millions)

	Turbopumps	Measurement and Analysis Equipment, Components	Service	Backing Pumps	Systems
2001	64.0	48.0	26.8	22.3	9.0
2002	56.7	41.7	26.1	19.3	7.1
2003	53.6	35.2	25.9	18.0	11.3
2004	**59.5**	**42.5**	**25.0**	**19.7**	**9.5**

> New orders and orders on hand

New orders during the fiscal year totaled € 155.3 million, up € 5.1 million from € 150.2 million the year before. € 7.6 million of this rise stemmed predominantly from the higher volume of new orders for measurement and analysis equipment/ components, totaling € 3.1 million and € 2.2 million, respectively, from the higher volume of orders for turbopumps and backing pumps. At € 8.0 million, on the other hand, new orders in systems business were down. This sharp decline from the year before resulted from the cancelation of orders in DVD business.

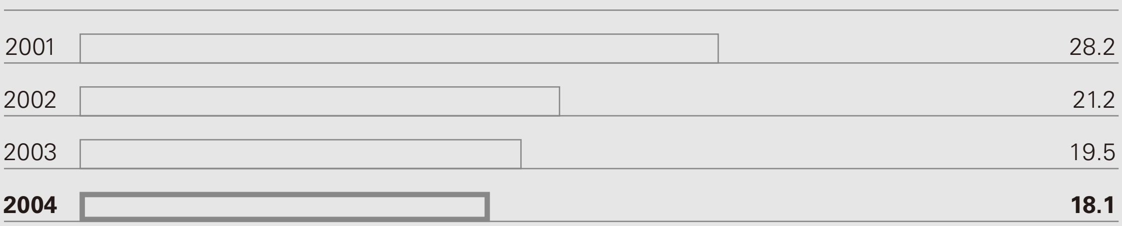
At year-end 2004, the book-to-bill ratio – the quotient of new orders and sales – amounted to 0.99 (2003: 1.04). This means that the value of new orders roughly equaled sales, illustrating our good point of departure for the year 2005. Orders on hand totaled € 26.3 million (2003: € 27.2 million).

> Earnings development

Given the above-indicated sales numbers of € 156.2 million and cost of sales in the amount of € 93.9 million (2003: € 81.7 million), we earned a gross profit of € 62.3 million, the same as the year before. The impact of our withdrawal from DVD business on the statement of income affected cost of sales, in particular, which rose by 14.9 % or € 12.2 million. Expenses here were primarily incurred for impairment losses on inventories.

Totaling € 34.0 million, selling, general and administrative expenses remained virtually unchanged from the year before. This means that the impact of our DVD business on profitability, in particular due to expensing its capitalized goodwill (€ 1.0 million), was offset by cost savings in other areas of the Company. In addition, the effect of the flexible worktime model that was instituted in 2003 and 2004 can also be seen. Research & development expense totaled € 10.3 million in fiscal 2004. This is an increase of € 1.4 million, or 14.8 %. The research & development expense ratio was 6.6 % relative to sales (2003: 6.2 %).

Operating Profit 2001 – 2004 (in € millions)



Financial income totaled € 1.5 million in 2004 (2003: € 3.7 million), resulting from interest income in the amount of net € 1.1 million and exchange rate gains of € 0.4 million. A portion of the € 2.2 million decline in financial income from the year before was attributable to the assets that were transfered to the pension trust, as legal requirements mandate that the interest income generated by them has to be netted with the additions to the Trust and therefore increased operating income. Moreover, the exchange rate gain declined by € 1.7 million from the year before to € 0.4 million. This was primarily due to the development of the U.S. dollar.

Overall, this results in income before taxes of € 19.6 million, representing a decline of € 3.6 million or 15.3 %.

Before/After-Tax Income 2001 – 2004 (in € millions)

2001	29.4	18.9
2002	24.8	17.5
2003	23.2	12.7
2004	**19.6**	**11.6**

The tax rate for the consolidated group amounted to 40.8 % (2003: 45.0 %). Major reasons for this decrease were a special item due to the loss of corporate tax reduction included in prior year tax expenses and a lower corporate tax rate of 25.0 %. Our net income for the year 2004 thus totaled € 11.6 million (2003: € 12.7 million).

> Financial position

Equity again rises – A manifestation of profitability

The balance sheet total of the consolidated Pfeiffer Vacuum Group rose from € 119.8 million to € 125.2 million. This represents an increase of € 5.4 million or 4.6 %. On the assets side, this change resulted essentially from the increase in cash and cash equivalents, from € 29.4 million to € 45.0 million (€ +15.6 million), as well from as the € 1.9 million increase in other accounts receivable to € 4.1 million. On the other hand, there was a decrease in inventories (€ –5.5 million) and trade accounts receivable (€ –3.3 million). The development of inventories and fixed assets was impacted by our withdrawal from DVD business. With respect to the development of cash and cash equivalents, amounting to € 45.0 million and accounting for 35.9 % of the balance sheet total (2003: 24.6 %), reference is made to the comments on cash flow in the following section. Shareholders' equity rose by € 4.3 million to € 99.4 million. This development stemmed in particular from our net income of € 11.6 million and the dividend payment of € 6.1 million. Despite the increase in balance sheet total, the equity rate of 79.3 % remained constant. On the liabilities side, higher accrued liabilities (€ + 0.9 million) and higher customer deposits (€ + 0.9 million) were the primary reasons for the increase in the balance sheet total, in addition to the rise in shareholders' equity. Thanks to its above-average shareholders' equity, the Company is not dependent upon bank debt.

The development and composition of the individual items in the balance sheet are detailed in the Notes to the Financial Statements.

> Cash flow

Cash flow from operating activities amounted to € 26.3 million in 2004 (2003: € –13.4 million). In particular, this significant improvement was attributable to the fact that our cash flow the year before had been negatively impacted by the divestiture of cash and cash equivalents to the pension trust that was formed in 2003 (€ 36.0 million). The operative cash flow did not contain any extraordinary cash-relevant elements in 2004.

The determining factor in cash flow from investing activities in 2004 in the amount of € – 4.2 million (2003: € –10.8 million) was net cash used for capital expenditures (€ 3.4 million) and purchases of investment securities (€ 1.0 million), which was offset by minor net cash provided by the sale of fixed assets in the amount of € 0.2 million. The significant decline in net cash used, amounting to € 6.5 million, from the year before was in particular attributable to a special effect the year before (acquisition of a bank loan in the amount of € 9.0 million).

The dividend payment of € 6.1 million in 2004 for the year 2003 was the only factor that influenced net cash used in financing activities for the year 2004, which amounted to € – 6.1 million (2003: € –16.4 million). In addition to the dividend payment (€ 4.9 million), the primary factors that had impacted net cash used the year before were the redemption of a long-term loan (€ 9.0 million) as well as the stock buy-back (€ 2.4 million).

In 2004, cash and cash equivalents rose by a total of € 15.6 million, amounting to € 45.0 million on December 31, 2004. We thus continue to be in a position to generate sufficient cash from operating activities to finance our day-to-day business and investment projects.

> Purchasing

Developments on the international energy market again impacted the Company in the field of purchasing in 2004. Prices for natural gas and electricity continued to rise, for example, having a negative impact on our profitability. The same also applies with respect to the development of steel and aluminum prices. However by entering into long-term framework agreements, we succeeded in largely containing the price rises and assuring a supply of the raw materials required for manufacturing operations.

> Human resources and social aspects

On December 31, 2004, the workforce totaled 745 people; this represents a reduction of 16 people or 2.1 %. On annual average, the workforce declined to 750 people, as opposed to 777 the year before. In particular, this reduction resulted from the expiration of temporary employment contracts as well as from both regular and early retirement.

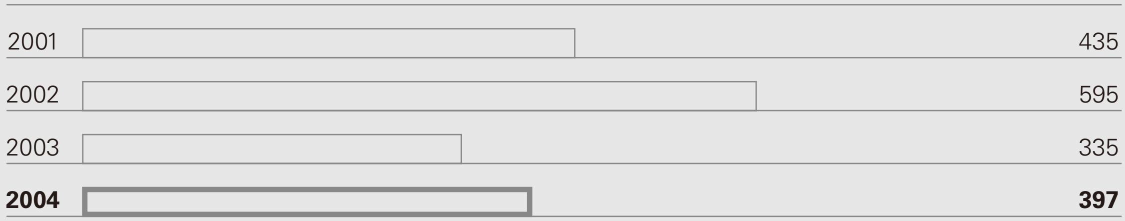
> Capital expenditures and financing

With the objective of securing the Company's future long term, capital expenditures were increased by € 1.5 million in fiscal 2004 to € 3.4 million, representing a rise of 77.4 %. Of the total amount, € 2.2 million was invested in machinery.

Capital Expenditures 2001 – 2004 (in € millions)

With an equity ratio of 79.3 %, our Company is financed virtually entirely through shareholders' equity in the long-term segment. The current asset ratio amounts to 397 % (2003: 335 %) and continues to stand for our sound financing concept and our high creditworthiness.

Current Assets Ratio 2001 – 2004 (in %)



> Research & Development

Our turbopump runs and runs, but it does not run by itself

Research & development is where the foundation for future sales is already being laid today. The consistently high percentage of sales accounted for by turbopumps is thus the result of the ongoing evolution of this product, always with the objective of even better satisfying the needs of our customers. And this naturally also holds true for all further Pfeiffer Vacuum products. Research and development expenses during the fiscal year – adjusted for the special item of our withdrawal from DVD business – continue to total € 8.9 million, documenting the important role of this work and underscoring its significance for the further development of the Company. Numerous new products that were brought to market in the year 2004, as well as eleven patent applications and eleven patents that were granted, represent the results of our efforts.

> Environment

Our environmental management system was reviewed within the scope of a follow-up audit in September 2004. The new certificate under ISO 14001:1996 was issued without restriction for a further three years.

Risk Report

In order to be able to specifically deal with risks, we utilize and evolve suitable instruments for identification, analysis and control in our risk management system. We have defined the risk areas of risk management within the individual departments and have put in place the necessary procedures, early warning and monitoring systems. We take the risk factors we have defined into consideration in our annual budgeting process. The budget and our current business position are comprehensively deliberated with the Supervisory Board. Moreover, the Supervisory Board also receives monthly overviews of our financial results by region, as well as further reports from the Management Board.

> Overall economic risks, industry risks

As a globally operating enterprise, we are highly dependent upon the development of the world economy. Declining world economic growth has a direct impact on our sales and earnings. In addition, the strong competition that prevails in our market poses the risk of market share and name recognition losses. One risk that is often encountered in the vacuum industry is its pronounced dependency upon economic developments in the semiconductor industry.

Customer diversification translates into only a low dependency on the semiconductor industry

Through our ability to win new customers from the segments of Industrial, Analytical Industry and Coating, which was sustained in the 2004 fiscal year, we succeeded in continuing to remain independent of individual markets. We respond to negative changes in the economy through measures aimed at adjusting capacities as well as swift cost reduction. In addition, we constantly analyze our market environment and the competitive situation. Ongoing customer contact and the market intimacy that this brings with it supplies us with important information about the needs of our customers. This information enables us to develop and offer products that satisfy technological needs and thus further expand our competitive position and name recognition.

> ### Technology risks

The major risk factors here include insufficient innovativeness as well as a decline in the quality of our products.

With the objective of continuing to satisfy our customers' needs in the future, Pfeiffer Vacuum continuously invests in the development of new and innovative products. In fiscal 2004, we spent – adjusted for the special items related to the withdrawal from DVD business – a total of € 8.9 million on research & development (2003: € 8.9 million). This correlates to 5.7 % of sales – as opposed to 6.2 % the year before. Through these development expenses, we will continue to combat the risk of insufficient innovation. In addition, maintaining high standards of quality is a top priority for us as a manufacturer of high-tech quality products.

> ### Purchasing and manufacturing risks

Risks in the purchasing market exist in particular in the form of supply bottlenecks and dependence upon individual vendors. From a manufacturing standpoint, downtimes must be viewed as a major risk.

We primarily combat the risk of supply bottlenecks and vendor dependence by continuously reviewing alternative supplier options. Anticipated market shortages of raw materials, such as steel and aluminum, are combated through long-term framework contracts. Qualified technicians and modern production machinery keep technically related downtimes to a low level. Business interruption insurance is in force to cover the effects of downtimes resulting from storm or flood damage, for example.

> ### Foreign exchange risks

As a result of our pronounced international activities and the high percentage of export business that this involves, we are subject to a foreign exchange risk. With the United States accounting for € 33.1 million, or 21.2 %, of our sales, this applies in particular with respect to the exchange rate of the U.S. dollar.

The Company engages in active foreign exchange management for sales revenues in the United States: The Company enters into transactions in currency options and futures to hedge foreign exchange risks. The unanticipated development of the U.S. dollar relative to the euro during the second half of 2004 had a material impact on profitability, in spite of the above-described measures.

> Financial and liquidity risks

In what continues to be a tense overall economic situation, financial risks result from the insolvency of customers, in particular. Generally speaking, liquidity risks consist of the inability to satisfy payment obligations in a timely fashion.

We reduce creditworthiness risks, and thus accounts receivable losses, with the aid of a rigorous system of accounts receivable management and by monitoring our customers' payment patterns. Moreover, our dependence upon individual customers is very limited, as no end customer accounts for more than 5 % of our total sales. To steer liquidity, a cash management system is in place between the German companies, which assures the companies a sufficient supply of cash. Overall, we possess sufficient liquid assets to finance our operative business, to cushion negative developments and to continue to grow from within.

> Human resources risks

As a high-tech manufacturer, we are dependent upon the high level of training and education of qualified employees and are threatened by the risk of losing them.

Attrition rate significantly below the industry average

The training and education of young, qualified employees serves to minimize the strategic risk. To minimize the operative risk, we provide continuing training and education for our employees and foster their self-direction in order to create incentives and promote the ideas of our people. We view an attrition rate of less than 1 %, which is well below the industry average, as a positive signal.

> Information technology risks

The major information technology risks are loss of data and system outages. Moreover, risks also exist in the form of unauthorized access to enterprise data by hackers and the infestation of hardware and software with computer viruses.

We keep the risk of data losses to a minimum by performing daily backups of our complete enterprise data. Our enterprise database, in particular, with which manufacturing operations, materials management, order handling, financial and cost accounting are handled, is subject to a high security standard. All files created by our employees within the server environment are also backed up on a daily basis.

Our backup copies are stored in secure, fireproof locations. The activities of our in-house support team reduce system outages to a low level. The Company uses regularly updated virus scanners and modern firewalls to protect its hardware and software against the risk of computer viruses and hacking.

> Legal risks

As an internationally operating enterprise, we are subject to a variety of legal risks. International contract law and taxation are of particular significance, as they can have a direct impact on the Company's earnings or financial positions.

The professional expertise required for assessing the Company's day-to-day business is provided by our qualified staff. To further minimize risk, we draw upon the assistance of external legal and tax advisors in connection with complex questions and/or out-of-the-ordinary occurrences. No legal disputes are currently pending whose outcome could have a material impact on the Company's earnings or financial position.

> Overall statement regarding the risk management system

We are of the opinion that the risk management system that has been established, consisting of the methods and instruments described in connection with the individual types of risks, is suitable for identifying, analyzing and quantifying existing risks in order to adequately control them. In connection with the audit of the annual financial statements, our auditor has reviewed the risk management system that has been established. This review did not result in any objections.

In summary, it is our conviction that no risks exist which could endanger the Company's survival, neither for the current year nor for the following years.

Early 2005 and Outlook

> Early 2005

With the exception of the decision to withdraw from DVD business, there have been no significant changes in the Company's position or the industry environment since the beginning of the 2005 fiscal year.

> Outlook

The leading economic experts anticipate world economic growth of around 4 % for the year 2005, and thus a continuation of the global economic upswing, however with only a moderate dynamic. The American and the Asian economies will have a major influence on the development of the world economy.

Given this background, we anticipate that sales and profitability will develop on a stable basis overall. We expect to see moderate growth in the semiconductor, coating and industrial as well as chemical and process technology market segments, while according to our assessments sales will rise disproportionately in the analytical industry. However an unfavorable development of the exchange rate of the U.S. dollar for us could pose the risk that some of this growth might be offset by negative foreign exchange rate effects.

We further anticipate that the development of operating expenses will fundamentally parallel that of sales. Due to shortages of steel and aluminum, it is presently not possible to make a final judgment as to how the market prices for these raw materials will develop. With the objective of keeping these costs largely constant, one of the measures we have taken is to enter into long-term framework agreements with our vendors.

Our withdrawal from DVD business will have a positive impact on Pfeiffer Vacuum's profitability in 2005. We do not expect any material negative impact from this move, as all presently identified risks have been reflected in the 2004 Consolidated Financial Statements. This move did not have any major impact on cash and cash equivalents in 2004, nor do we expect this to be the case in 2005.

Early 2005 and Outlook

We continue to view research & development costs as an investment in the future. With the objective of remaining competitive and expanding market share, we will continue to identify market needs early on and satisfy them through customer-driven new developments. In order to achieve this objective, we will continue to maintain a high ratio of research & development expenditures relative to total sales.

The proposal by the Management and Supervisory Boards relating to the appropriation of retained earnings calls for proposing to the Annual Shareholders Meeting that our shareholders should again participate disproportionately in the Company's success in 2004. Under this proposal, the base dividend will be € 0.40 and the bonus dividend € 0.50 per share of no-par stock. A total of € 7.8 million will thus be distributed to our shareholders.

The liquidity generated by regular business operations will continue to enable us to make all necessary investments from within and further optimize our business processes.

With motivated, well trained and educated people, a customer-driven product portfolio, creative developers and a flexible manufacturing operation, in the future vacuum will continue to be everything to us!

Independent Auditors' Report

We have audited the consolidated financial statements, comprising the balance sheet, the income statement and the statements of changes in shareholders' equity and cash flows as well as the notes to the financial statements prepared by the Pfeiffer Vacuum Technology AG, Asslar, for the business year from January 1 to December 31, 2004. The preparation and the content of the consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion whether the consolidated financial statements are in accordance with Accounting Principles Generally Accepted in the United States of America (U.S. GAAP) based on our audit. We conducted our audit of the consolidated financial statements in accordance with German auditing regulations and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (IDW). Those standards require that we plan and perform the audit such that it can be assessed with reasonable assurance whether the consolidated financial statements are free of material misstatements. Knowledge of the business activities and the economic and legal environment of the Group and evaluations of possible misstatements are taken into account in the determination of audit procedures. The evidence supporting the amounts and disclosures in the consolidated financial statements are examined on a test basis within the framework of the audit. The audit includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audit provides a reasonable basis for our opinion. In our opinion, the consolidated financial statements give a true and fair view of the net assets, financial position, results of operations and cash flows of the Group for the business year in accordance with Accounting Principles Generally Accepted in the United States of America. Our audit, which also extends to the group management report prepared by the Company's management for the business year from January 1 to December 31, 2004, has not led to any reservations. In our opinion on the whole the group management report provides a suitable understanding of the Group's position and suitably presents the risks of future development. In addition, we confirm that the consolidated financial statements and the group management report for the business year from January 1 to December 31, 2004, satisfy the conditions required for the Company's exemption from its obligation to prepare consolidated financial statements and the group management report in accordance with German law.

Eschborn/Frankfurt am Main, February 24, 2005

Ernst & Young AG
Wirtschaftsprüfungsgesellschaft

Havas	Klingelhöfer
Wirtschaftsprüfer	Wirtschaftsprüfer
(German Public Auditor)	(German Public Auditor)

Report of the Supervisory Board

Dear Shareholders,

Significant improvement in the core business of "vacuum pumps"

The 2004 fiscal year was characterized by a moderate recovery of the economic environment, although it was unable to live up to expectations. In fact, it would appear that the upswing in the semiconductor market is already taking on cloudier contours again. However this had only a marginal impact on the Company's results, as the Company has been increasingly focusing on markets that are not subject to the cyclical trend of semiconductor business. In fiscal 2004, the Company was able to significantly improve in its core business of "vacuum pumps." As in previous years, the DVD equipment sector remained unsatisfactory, and a solution was rigorously found for it.

> Supervisory Board meetings and content

In four meetings during the 2004 fiscal year, the Supervisory Board informed itself about the current position of the Company and the corporate group, and conducted intensive discussions with the Management Board. The Supervisory Board meetings were conducted on March 9, June 16, August 2 and November 1, all of them in Asslar. Dr. Oltmanns, Professor Kügler, Mr. Anderson and Mr. Timmerbeil attended the meeting on August 2 over the telephone. In addition to the information provided at its regular meetings, all members of the Supervisory Board received detailed monthly and quarterly reports on the Company's position, with the Chairman of the Supervisory Board additionally being provided with the minutes of all Management Board meetings. Aside from the regular meetings of the Supervisory Board, its Chairman was constantly kept abreast of all major business matters through discussions with the Management Board.

> Duties of the Supervisory Board

The Supervisory Board's Audit Committee maintained regular contact with the independent auditor, discussing with him and decided upon the course of the audit, the main focuses of the audit and particular questions relating to the audit. Those measures requiring the consent of the Supervisory Board were deliberated and decided upon at its meetings. This included the appointment of Manfred Bender as the new Chief Financial Officer to replace outgoing Amandus Waterkamp, as well as the measures required for divesting the Company's DVD business. Further focuses of the Supervisory Board meetings included the sales offensive in the United States, the issue of treasury stock acquisition, the development of the Pfeiffer Vacuum Trust e. V. registered association, to which the Company's pension obligations had been divested at the end of the previous year, as well as the "Turbo Office" project, from which the motivation and performance of the employees have benefited. The Supervisory Board complied with all of the obligations vested in it under applicable legislation and the Company's articles of incorporation and bylaws, taking into consideration the particular requirements of the German Control and Transparency Act of 1998 ("KonTraG"), as well as the German Publication Transparency Act of 2002 ("TransPublG"), and diligently and fully supervised the management of the Company.

> Risk management

The requirements with respect to risk management mandated under the German Control and Transparency Act were discussed intensively together with the Management Board. The Supervisory Board repeatedly satisfied itself that sufficient insurance coverage is in force for insurable risks and that operating, financial and contract risks are being monitored through organizational processes and approval procedures. A detailed reporting system exists for the Company and the corporate group, and is subjected to ongoing review, update and development. All employees in the operating units are sensitized to potential risks and are instructed to conduct appropriate reporting.

> Corporate governance

As in the year before, the Supervisory Board discussed the German Corporate Governance Code ("DCGK") in detail. The Supervisory Board continues to be in agreement with the Management Board that the three variances from the German Corporate Governance Code, i.e. in connection with a deductible for the Company's liability insurance, in connection with individualization of the compensation paid to members of the Management and Supervisory Boards and in connection with the structure of the compensation paid to members of the Supervisory Board, are justified and meaningful. The statement of compliance pursuant to § 161 of the German Stock Corporation Act ("AktG") was able to be submitted by the Management and Supervisory Board sufficiently in advance of the close of the fiscal year with the above provisos. In connection with good corporate governance, the Supervisory Board also dealt in detail with its own efficiency, with the review producing positive overall results. At the meetings of the Supervisory Board and in individual discussions, the Supervisory and Management Boards deliberated at length regarding the Company's strategic alignment and planning, with the development of Pfeiffer Vacuum Systems GmbH, in particular, being discussed in detail. The impact of the development of the economy was also the subject of intensive discussions between the Management and Supervisory Boards. The budget for the 2005 fiscal year was discussed and adopted.

> Audit

In accordance with the resolution adopted by the Annual Shareholders Meeting on June 16, 2004, Ernst & Young AG, Wirtschaftsprüfungsgesellschaft, of Eschborn/Frankfurt am Main, was commissioned to audit the Annual Financial Statements of the Company, the Company's Consolidated Financial Statements, which are presented in accordance with U.S. Generally Accepted Accounting Principles ("U.S. GAAP") and the financial statements of its subsidiaries where prescribed by law. Pursuant to § 292a of the German Commercial Code ("HGB"), consolidated financial statements according to the rules of the German Commercial Code were not prepared. The audit focuses defined by the Audit Committee and the independent auditor included the Company's DVD business. The Annual Financial Statements, Management's Discussion and Analysis, as well as the Consolidated Financial Statements presented in accordance with U.S. GAAP for the 2004 fiscal year, all of which were prepared by the Management Board, were audited by the independent auditor and received his unqualified opinion.

Unqualified opinion for Annual Financial Statements, Management's Discussion and Analysis and Consolidated Financial Statements

> Annual Financial Statements

The Annual Financial Statements, Management's Discussion and Analysis, as well as the audit reports from the independent auditor, were submitted to all members of the Supervisory Board in a timely fashion. They were discussed in detail at the Audit Committee meeting relating to the financial statements as well as at the Supervisory Board meeting relating to the financial statements on March 14, 2005. The independent auditor attended both meetings, reported on the major findings of his audit and was available to answer additional questions from the Supervisory Board. On the basis of its own thorough review, the Supervisory Board concurs with the results of the audit conducted by the independent auditor. The Supervisory Board approved the financial statements, which were thus formally adopted. The Supervisory Board discussed in detail with the Management Board its proposal regarding the distribution of a dividend and concurs with the Management Board's proposal regarding appropriation of the Company's retained earnings.

> Expression of thanks

The Supervisory Board wishes to express its thanks to the members of the Management Board, to the Employee Council and the entire staff of the corporate group for their successful work in fiscal 2004.

Asslar, March 2005

Supervisory Board