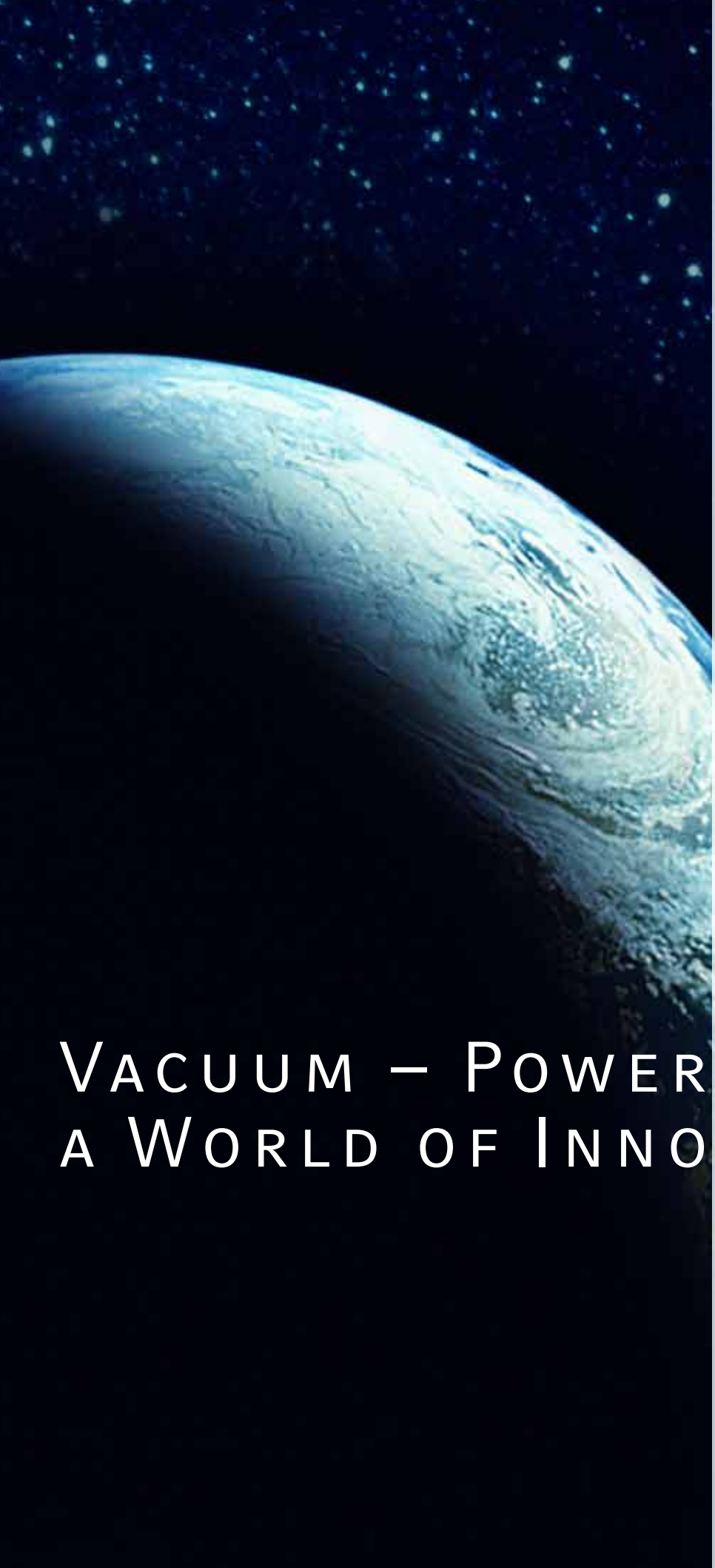


PFEIFFER VACUUM

Annual Report 2005

Vacuum – Powering a World of Innovation

Contents

Key Numbers

Net sales	(in € millions)
2001	170.1
2002	150.7
2003	138.6
2004	151.5
2005	**159.5**

EBIT margin	(in %)
2001	16.6
2002	17.2
2003	17.6
2004	22.8
2005	**23.1**

Operating profit	(in € millions)
2001	28.2
2002	26.0
2003	24.3
2004	34.6
2005	**36.8**

Earnings per share	(in €)
2001	2.16
2002	1.99
2003	1.46
2004	1.34
2005	**2.62**

Return on equity	(in %)
2001	22.6
2002	19.0
2003	13.4
2004	11.7
2005	**20.2**

Equity ratio	(in %)
2001	55.4
2002	59.5
2003	79.3
2004	79.3
2005	**81.1**

Capital expenditures	(in € millions)
2001	9.1
2002	1.7
2003	1.5
2004	2.1
2005	**2.5**

Workforce	(Dec. 31)
2001	793
2002	754
2003	705
2004	696
2005	**691**

To provide comparability all prior-year numbers in this Annual Report have been adjusted to reflect discontinued operations (DVD business).

		2005	2004	Change
Sales				
Total sales	K €	159,517	151,512	5.3 %
Germany	K €	42,625	42,252	0.9 %
Other countries	K €	116,892	109,260	7.0 %
Operating profit	K €	36,788	34,618	6.3 %
Net income	K €	22,748	11,626	95.7 %
Return on sales	%	14.3	7.7	–
Operating cash flow	K €	24,543	26,311	–6.7 %
Balance sheet				
Total liabilities and shareholders' equity	K €	138,824	125,233	10.9 %
Cash and cash equivalents	K €	61,651	44,986	37.0 %
Number of shares issued		8,790,600	8,790,600	–
Shareholders' equity	K €	112,631	99,355	13.4 %
Equity ratio	%	81.1	79.3	–
Return on equity	%	20.2	11.7	–
Capital expenditures	K €	2,470	2,092	18.1 %
Workforce				
Workforce (average)		691	697	–0.9 %
Germany		509	512	–0.6 %
Other countries		182	185	–1.6 %
Personnel cost	K €	43,507	41,617	4.5 %
Per employee	K €	63	60	5.4 %
Sales per employee	K €	231	217	6.2 %
Per share				
Earnings	€	2.62	1.34	95.5 %
Dividend	€	1.35	0.90	50.0 %

K € = thousands of euros

Vacuum – Powering a World of Innovation

And it all began long before our modern times. Even as far back as in their “Golden Age” (4th century B.C.), the ancient Greeks were already pondering the question of whether a vacuum can exist at all. Yet it would not be until the 17th century before vacuum would be able to be produced experimentally. And that marked the beginning of a sustained string of new discoveries and inventions that are only possible with vacuum.

On these first pages of this year’s Annual Report, we invite you to accompany us on a brief journey of discovery in which we will introduce you to just some of the scientists from the world of vacuum. And we will then inform you – at the introduction to each chapter – about inventions that have changed the world and in which vacuum plays the crucial role.

Vacuum

Even as far back back as in their "Golden Age" (4th century B.C.), the ancient Greeks were already pondering the question of whether a vacuum – i.e. the complete absence of air – can exist at all. This prompted Greek natural philosophers Democritos and Leucippos to postulate that the world was divided into atoms and empty space. They deduced this from their assumption that an indivisible particle – called "átomos" – exists. The absence of these atoms, they theorized, thus represents absolute emptiness, or a vacuum, in which the indivisible particles can move freely.

Aristotle

Aristotle (384–322 B.C.) was the first to study the laws of human logic on the basis of a thorough analysis of physical reality. Consequently, he rejected the idea of a vacuum, because according to his bold logic a vacuum cannot exist, as this would be a state of "no return." It might, in fact, be possible to imagine being able to empty a space of particles – but how would we then get the particles back where they belong? So nature, he reasoned, abhors a vacuum (horror vacui).

Aristotle developed any number of mental experiments in support of his ideas. He imagined, for example, that a stone could not exist in an absolute vacuum, as it would not know which way to fall. Since there could be no means of orientation in a vacuum, no up and no down, it would be impossible to create a vacuum. Because once created, it would continue to exist forever, and we, on the other hand, would no longer be able to exist in our world of particles, as they would have disappeared forever.

Aristotle influenced the world of science and religion for nearly 2,000 years with his cogent ideas. From 1450 to 1600 (Renaissance), Catholic kings and emperors persecuted Aristotle's Protestant and Calvinist adversaries. Beginning in 1567, the Duke of Alba instituted a very harsh regime in the Spanish Netherlands: He established the Council of Troubles, which ordered the execution of some 12,000 people. Scientists were forbidden to even think that a vacuum could exist.

Yet by the 17th century, various natural scientists were again working on creating an artificial vacuum. This caused a huge sensation when it became known, and even laypeople were talking about vacuum.

Evangelista Torricelli

Italian physicist and mathematician **Evangelista Torricelli** (1608–1647) would be the first to make the great breakthrough. Inspired by Galilei's writings, he penned a treatise on mechanics. Galilei was so impressed by this work that he invited Torricelli to Florence in 1641 to serve as his clerk and assistant. Yet Torricelli would only accompany Galilei for three months before taking his position as a professor of mathematics at the Florentine Academy.

Galilei had once suggested to him that he experiment with fluids. So in 1643, he took a mercury filled tube that was sealed at one end and placed it open end downward into a bowl of mercury. The first glass tube he used was around one meter long, and he observed how a vacuum formed at the top end of the tube. This vacuum was produced by the weight of the mercury being pressed downward by the force of gravity. However the height of the mercury column was independent of the length of the tube, and always amounted to around 760 millimeters. The conclusion he derived was that there were two forces that produced this outcome. In actual fact, though, the height of the mercury column varied slightly from day to day as a function of the weather. The column of mercury dropped if the atmospheric pressure was low and rose when high pressure dominated.

Torricelli had succeeded in being the first to produce a vacuum experimentally. In doing so, he also found that it is the air above us that pushes the mercury column to a height of 760 millimeters. From this he deduced that we live immersed in a sea of air and that the pressure exerted by all this air is reflected in the height of the mercury column. Torricelli had refuted the 'horror vacui' principle, thus paving the way for the sciences to evolve, in contrast to the superstition of the Church in those days. He found that the existence of air posed an obstacle to the production of a vacuum.

Blaise Pascal

Others soon followed Torricelli's example. Like French physicist and religious philosopher **Blaise Pascal** (1623–1662), who in 1648 conducted Torricelli's same experiment both in the city in which he lived (Clermont-Ferrand) as well as on nearby, 1,465-meter-high Mount Puy de Dôme. As he expected, the column of mercury was lower on the mountain, as it was burdened by less air there. This success prompted Pascal to deride those who still believed in the 'horror vacui' – something that would have been an impossibility only years before.

He repeated the experiment under a variety of weather conditions and proved that humid air is heavier than dry air, as the mercury column indicated higher pressure during humid weather. Pascal's Law says that a pressure applied to a fluid will propagate uniformly in all directions. From this, he developed his theory of pressure equilibrium in stable systems. In conjunction with his dual vacuum experiment, this led him to prove that the pressure exerted by a vacuum is zero.

Torricelli's success would attract many others, who all had one thing in common: A desire to research gases and fluids. Irish chemist and natural philosopher **Robert Boyle** (1627–1691), who lived in England, also worked in this field. During a European tour, he read Galilei's writings and together with Robert Hooke constructed an air pump which he used to conduct the experiments that in 1662 ultimately led to his law. He found that at constant temperature, the volume of a gas behaves inversely proportional to its pressure. In other words, when the pressure rises the volume decreases, and vice versa, which means that the product of pressure and volume is always constant.

Robert Boyle

French physicist **Edme Mariotte** (1620–1684) succeeded in obtaining the same result in 1676, which is why in Europe this law is also called the Boyle-Mariotte Law. Boyle published "The Sceptical Chymist," a book that attacked the Aristotelian view of the world and alchemy. He asserted the modern opinion that matter cannot consist of a conglomeration of different individual particles, but only of a single particle (atom) which, in the form of different complexities, is capable of explaining the entire variety of minerals and rocks. Beginning in 1668 in London, he worked on the calcination of metals and on the distinction between acids and bases. His law is generally valid, although the volume of a real gas does not decline as rapidly under high pressure as that of theoretical, perfect gases. This difference was later able to be used in deriving the Kinetic Theory of Gases.

Edme Mariotte

The mayor of Magdeburg at that time was a man named **Otto von Guericke** (1602–1686); he was not a scholar, but a self-taught man and a practical engineer. He invented the first evacuation pump, which worked with a piston and was capable of pumping entire vessels empty. In doing so, he studied the effects of vacuum in the field of physics as well as the effects of the absence of air in connection with combustion and respiration. So fascinated was he by the air's resistance to leaving a vacuum that he said: "Nothingness is more precious than gold, it is devoid of all creation or demise, it is more refreshing than the grace of light, more noble than royal blood, the equal to the heavens, higher than the stars, as powerful as a bolt of lightning." And he wasn't all that wrong, because if humans value things on the basis of the effort required to achieve them, the value of vacuum is truly immeasurably great.

Otto von Guericke

In 1663, von Guericke conducted what was probably his most famous experiment at the court of Elector Friedrich Wilhelm The Great in Berlin: He placed two copper hemispheres together and evacuated the air from the space between them with his pumps. He then hitched 16 horses to the sphere this produced and had them endeavor to tear it apart by pulling from both sides. But the horses were unable to separate the two hemispheres again. Von Guericke explained to the amazed audience that it was the air he had pumped out that was responsible for this effect. Today, we know that an underpressure is produced in the interior of a sphere of this kind when the air is evacuated, causing the weight of the outside air to hold the hemispheres together. However it is also noteworthy that removing just a bit of air from the interior of the sphere produces an enormous underpressure.

Christiaan Huygens (1629–1695) was a technical physicist from the Netherlands, where his father had "discovered" Rembrandt. A contemporary of Sir Isaac Newton, he was dedicated to astronomy, discovering Saturn's rings and moons in 1656 and surface features on Mars in 1659. Yet his genius was even more impressive in connection with physics. In 1657, he patented the first pendulum clock and calculated the centrifugal force for uniform circular motion. He also developed some of the first practical vacuum pumps. In 1665, he and Robert Hooke developed the Wave Theory of Light, which was even capable of explaining the play of colors that soap bubbles and oil spots produce on the surface of water. The application of his Wave Theory of Light with respect to the propagation of light in a vacuum proved that, contrary to public opinion, vacuum in no way influences light; in other words, vacuum does not have the consistency of any kind of physical body, as people had believed in those days.

Christiaan Huygens

Together with **Nicolas** and **Anne-Jean Robert**, French mathematician, physicist and inventor **Jacques-Alexandre Charles** (1746–1823) built one of the first hydrogen balloons, in which he and Nicolas made their first flight in 1783. During the course of their flights, they ascended to an altitude of more than 1,500 meters. Charles had initially worked at the French Ministry of Finance, but then went on to devote his attention to the sciences and experimented, among other things, with electricity, invented a hydrometer and a reflecting goniometer, and improved Gravesande's heliostat and Fahrenheit's aerometer. In 1787, he postulated a law which says that the product of the volume and the temperature of a gas, divided by its respective absolute temperature, is constant. So if a gas is heated at a constant pressure, the volume of a given quantity of gas will be proportionate to its absolute temperature. This law is valid at low pressure and high temperature, represents a special instance of the general laws of gases, and can be derived from the subsequently postulated Kinetic Theory of Gases.

Jacques-Alexandre Charles, Nicolas and Anne-Jean Robert

Joseph-Louis Gay-Lussac discovered the same law in 1802 in researching the relationship between the volume and the temperature of gases under uniform pressure. In 1795, Charles was appointed a member of the Academie des Sciences in Paris and a professor of physics, although in his work he had tended to focus on mathematical developments.

John Dalton

At the age of 12, English chemist and physicist **John Dalton** (1766–1844) was already a teacher in Manchester, where he spent most of his life. His career began in 1787 with studies of the weather, and he made valuable observations regarding the northern lights, the trade winds and the cause of rain. As a chemist, he identified the temperature at which water possesses its maximum density (around 4 °C) and also worked on identifying the cause of color blindness.

In 1804, Dalton formulated a law relating to the partial pressure of gases in gas mixtures, which states that the total pressure of a gas is the sum of all partial pressures in a mixture having a given volume and a given temperature. This law is roughly valid in connection with ideal gases at low pressure and high temperature, and among other things is a conclusion stemming from the subsequently developed Kinetic Theory of Gases. He is also said to have found that gases expand when heated.

Dalton conducted experiments that showed the solubility of gases in water as well as the diffusion rate of gases, and in so doing proved that the atmosphere has a constant composition. He found that atoms have relative weights and that they always combine with one another in certain ratios. This enabled the Atomic Theory of Chemical Reactions to be developed in 1808, which says that all elements consist of tiny, identical individual particles that cannot be chemically altered. This made Dalton one of the fathers of modern particle physics.

Amadeo Avogadro

Amadeo Avogadro, the Count of Quaregna and Ceretto (1776–1856), spent his life in Turin, where he was a professor of higher physics. He studied the properties of gases that were responsible for the fact that gases always combine in a certain simple proportion in chemical reactions. This led him into postulating a law in 1811 which says that, given identical temperature and pressure conditions, identical volumes of gas will always contain an identical number of molecules. At the same time, he noted that, in contrast to solid elements, gaseous elements like hydrogen, oxygen and nitrogen occur in the form of molecules or, to be more precise, in the form of diatomic molecules. However his molecular theory of gases was not recognized until 1858 when Italian chemist Stanislao Cannizzaro constructed a logical system for classifying chemical elements.

In this connection, Avogadro found a constant which states that each gram-mole (the atomic weight of the gas, expressed in grams) contains the same number of molecules, i.e. 6.023×10^{26} molecules per kilogram-mole (if the molecular weight of oxygen is 32, then 32 kilograms of oxygen contain 6.023×10^{26} molecules). This amazingly simple relationship is roughly valid for gases at low pressure and high temperature, and like all laws before and after pertaining to gases, is derived from the Kinetic Theory of Gases.

A further consequence of Avogadro's Law is that one mole of a gas has a volume of precisely 22.4 liters under standard conditions (0 °C, 1 atm). It was now becoming increasingly apparent that the molecules in the gases are subjected to minor oscillations, which ultimately account for all of the parameters known to us (pressure, volume, temperature).

Joseph Fourier

Joseph Fourier (1768–1830) was a brilliant French mathematician who was interested in thermal conductivity. He developed partial differential equations in this connection that defined the state of heat in an equilibrium and of heat exchange in solid bodies. In solving his equations, he invented the so-called Fourier Series, an infinite series of trigonometric equations that differentiate between the internal conditions and the surface conditions of solid bodies. In recognition of his outstanding achievements, the Institut de France awarded him the Grand Prize in Mathematics in 1810, and in 1811 he published his "Harmonic Analysis."

Joseph-Louis Gay-Lussac

In 1802, French experimenter **Joseph-Louis Gay-Lussac** (1778–1850) discovered a relationship between the volume and the temperature of gases under constant pressure. In 1808, Gay-Lussac published his Law of Combining Volumes in chemical reactions of gases, which represents a logical conclusion drawn from the work conducted by Dalton and Avogadro. Because if gases consist of molecules and identical quantities possess identical volumes, they have to react in a given proportion.

Gustave de Coriolis

Gustave de Coriolis (1792–1843) was a French scientist who worked with rotating bodies. A rotating globe (the earth, for example), generates a direction of flow, and centrifugal force produces a second force that is perpendicular to both the direction of flow and the axis of rotation. This means that in a body of water, the water will be pressed from bottom to top on the northern hemisphere and from top to bottom on the southern hemisphere. In this connection, there is a general shift in the direction of flow to the east.

This is the basis for all major atmospheric and oceanic streams on earth. In 1835, he describes the Coriolis Effect, which is responsible for these motions. In addition, he also developed equations for the work and the kinetic energy involved in the movements of solid bodies.

Ludwig Eduard Boltzmann (1844–1906) was an Austrian professor of physics and mathematics in Vienna, Graz, Munich and Leipzig. His greatest contribution was the development of statistical mechanics and its application to the world of atoms. His statistics, for example, explained atomic motion as resulting from the mass, the charge and the structure of matter, as well as from their macroscopic properties, such as viscosity, thermal conductivity and diffusion.

Ludwig Eduard Boltzmann

In 1871, he found a classical explanation for so-called "specific Dulong-Petit heat," in 1872 he developed the H theorem and in 1877 he described the probability equation for entropy. According to this equation, the Second Law of Thermodynamics (heat, in its own right, can only flow from warm to cold bodies) was merely the result of the mechanical motion of atoms and was ultimately statistical in nature. Thermal equilibrium is achieved in a system in that the matter increasingly approaches the most probable value, at which it then finally stabilizes.

This research enabled him to examine the exchange of energy between various parts of a body or a system at a given temperature. This led to the realization that the average energy required for moving an atom in various directions is always identical. This value is a constant that is expressed in joules per degree Kelvin, as the motion of an atom represents a temperature in the macroscopic world. The Boltzmann Constant has a value of 1.38062×10^{-23} J/K and is the subject of far-reaching application in modern physics, along with Planck's Constant and other values.

In 1884, he derived Stefan's Law of Black Bodies. In 1897, Boltzmann found that electromagnetism behaves symmetrically over time; i.e. it does not change, regardless of whether time runs forward or backward. He derived an integro-differential equation for the change in distribution of colliding atoms and laid the first cornerstone for statistical mechanics at both the classical and quantum mechanics levels.

Hendrik A. Lorentz (1853–1928), a Dutch mathematician, worked on calculations relating to electromagnetism. He endeavored to explain the existence of a material medium called ether by assuming that objects can become relatively smaller (Fitzgerald-Lorentz Contraction) and that clocks can run slower, even before Einstein developed his Theory of Relativity. In 1892, Lorentz posited the hypothesis that electricity is produced by charged particles. In 1895, he developed the so-called Lorentz Transformation, whose core parameter is the speed of light in a vacuum.

Hendrik A. Lorentz

Scottish physicist and chemist **Sir James Dewar** (1842–1923) wrote, among other things, on the physical constants of hydrogen and the physiological effect of light. In 1893, Dewar invented a double-walled, evacuated vessel made from reflective glass, which was named after him. This principle is still being used today in the design of thermos bottles and containers for storing dry ice and liquid gases.

Sir James Dewar

Thomas Alva Edison (1847–1931) was an American inventor whose developments included the incandescent electric lamp, an electric generating system, as well as an audio recording device. In 1883, he discovered that electrical current is produced by a heated filament in a vacuum, the so-called Edison Effect, although its impact on modern electronics would not be noticed until years later.

Thomas Alva Edison

Famous German physicist **Max Planck** (1858–1947) is considered to have established the Quantum Theory. Around 1894, he turned to the problem of black body radiation. Planck wondered: What is the relationship between the output of electromagnetic radiation that radiates from a black body in thermodynamic equilibrium and both the frequency of the radiation as well as the temperature of the body? The result he presented in 1900 was Planck's Law of Radiation, which was defined in vacuum.

Max Planck

German electrical technician **Ernst Ruska** (1906–1988) is considered to be the inventor of the electron microscope, which can only operate under vacuum. In 1931, he and Max Knoll succeeded in using magnetic lenses to achieve the first two-stage electro-optical enlargement, thus implementing the fundament technical principle of the electron microscope. It is based upon the fact that magnetic fields can divert electrons as a result of their charge and that beams of electrons can be bundled and focused through lenses, similarly to beams of light. In 1986, Ruska was awarded the Nobel Prize for Physics.

Ernst Ruska

Technology you can trust.

Mobile life would be inconceivable without motor vehicles. Safe, modern automobiles can only be manufactured with the aid of vacuum. Vacuum technology is used to manufacture semiconductor components that are employed e.g. in power brakes, daylight and rain sensor electronics and radios. Our helium leak detection systems are employed to test fuel tanks, wheel rims, airbags, air conditioning and air suspension systems. Headlamps, automatically darkening mirrors and windshields along with any number of further components are coated under vacuum.

At a Glance >>

The Year Two Thousand and Five

January

Service Presence broadened in Asia
Our service presence in Asia is expanded, with the emphasis on China.

February

Pittcon Trade Show
Pfeiffer Vacuum showcases its products at Pittcon in Orlando, Florida (U.S.A.), one of the premier trade shows for the analytical industry.

March

Pfeiffer Vacuum Subsidiaries turn 10
Our subsidiaries in Belgium, India, Italy, Korea and the United States celebrate their tenth anniversary.

April

Vacuum Days
Successful corporate and product presentations at the Vacuum Day events in Berlin, Dresden and Karlsruhe.

May

Analytical Market Segment expanded
We broaden our business relationship with a key account in the United States; Pfeiffer Vacuum successfully replaces competition products.

June

Harmonious Annual Shareholders Meeting
Regular Annual Shareholders Meeting on June 8, 2005, at the Municipal Hall in Wetzlar. Dividend up 30 % from the year before – € 0.90 per dividend-entitled share.

July

New OnTool™ Booster Dry Pump
Market launch of the OnTool™ Booster – the new high-vacuum pump that works directly against atmosphere for the fields of coating, semiconductors and research & development.

August

Reddot Award for new SmartTest Helium Leak Detector
Pfeiffer Vacuum garners an award for the innovative design and perfect engineering of its new helium leak detector.

September

1st place from manager magazin – Best Annual Reports
For the first time, Pfeiffer Vacuum wins the top prize in the TecDAX segment in this prestigious competition conducted by manager magazin.

October

Roadshow in Canada and Investor Conference in New York
A roadshow in Montreal and Toronto, followed by a corporate presentation at Dresdner Bank's German Mid Cap Investors Conference in New York.

November

New RevoDry™ Screw Pump
Market launch of the new dry-sealing screw pump for all low and medium vacuum applications.

December

Semicon Japan Trade Show
Pfeiffer Vacuum exhibits at Semicon Japan, one of the largest and most important trade shows for the semiconductor industry.

Manfred Bender, CFO · Wolfgang Dondorf, CEO

Foreword from the Chief Executive Officer – Frankly Speaking –

Dear Shareholders and Readers,

On July 16, 2006, it will be ten years since we were the first small or medium-size German enterprise to venture onto the world's largest stock market, the New York Stock Exchange.

Our second listing on the Deutsche Börse Stock Exchange in Frankfurt then followed on April 15, 1998.

And how has Pfeiffer Vacuum fared since then?
Pfeiffer Vacuum had already been listed in New York prior to the short-lived stock market boom on the Neuer Markt, and continues to be a rock solid equity today:

- The value of a share of Pfeiffer Vacuum stock has nearly increased eight-fold since our initial public offering (IPO) in 1996.
- In addition, we have been enabling our shareholders to participate in the Company's success since 1998 in the form of a steadily rising dividend: From € 0.41 per share in 1998 to € 0.90 per share in 2004. And we are proposing a distribution of € 1.35 per share for the year 2005.
- Sales have risen from € 128.0 million in 1996 to € 159.5 million in 2005.
- Before-tax income has increased from € 12.2 million in 1996 to € 39.3 million in the year 2005.
- During the same period, our equity ratio advanced from 33.5 % to 81.1 %.
- Pfeiffer Vacuum is debt-free and possesses € 61.7 million in liquid assets.

Was all this merely a matter of luck because the markets moved upward?
Definitely not, because all of our competitors would otherwise have been just as successful as Pfeiffer Vacuum – and that is demonstrably not the case.

It might perhaps be a bit disarming for us to freely and frankly admit that we were not driven by any great idea or vision at the outset, but that it was a matter of pure survival in 1996. In contrast to many initial public offerings, the proceeds from our IPO did not go to Pfeiffer Vacuum Technology AG but to our former holding company, Oerlikon Bührle in Switzerland.

Then as now, the watchword was: Roll up your sleeves, work hard, look for solutions and be better than the competition, so that customers will choose us. We have never put much stock in grandiose theories and philosophies that run on for pages – and are often formulated with the help of consultants. What we value instead are critical analysis by our own people, swift and pragmatic implementation of the knowledge we have gained, the will to knuckle down, work hard and constantly optimize our processes and procedures. And to do it all with a sense of purpose, with common sense and with a view to the big picture!

We expect our managers and employees to set a good example through their behavior, to be highly eager and committed, to accept criticism and to possess a good combination of knowledge, ability and desire. We are combating the global challenges and stiff competitive environment with creativity, commitment and common sense. We don't believe in simply accepting defeat. If it doesn't work one way, we'll simply try a different approach!

- We want to be a vibrant company that's engaged in a never-ending quest for innovation and customer benefits.
- We strive never to be worse, but always better – and often enough different.
- We embrace change that moves the Company forward.
- We don't want to deal all that much with the past and the present, but with what the future holds. And we want to institute the findings swiftly and purposefully.
- We don't want to be satisfied with what we've achieved; we want to be a bit better each day.
- We strive for flat hierarchies, as well as a minimum of bureaucracy and formalism in order to make our team self-directed, committed and enthusiastic in further optimizing our Company.
- We don't employ any ivory-tower visionaries; our people are pragmatists who are active in the operational environment and who do a major share of their work out in the front lines. This is the only way we can learn sufficiently in advance what it is that the markets expect of us.
- We naturally develop strategies for how we can conquest which markets. But: Strategies are often enough merely pretty words. Execution is the yardstick for what we do.

We are proud of what we have accomplished, yet without being arrogant or resting on our laurels. Over the course of the past ten years, we have achieved a great deal for:

- Our customers
- Our shareholders
- Our employees

And we were again able to post any number of successes in the past 2005 fiscal year: Our sales grew by 5.3 % from € 151.5 million (without DVD business) to € 159.5 million. During the same period, our net income rose by 95.7 % from € 11.6 million to € 22.7 million.

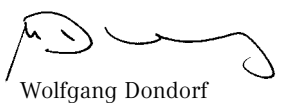
One of the reasons for this was the withdrawal from the unprofitable DVD business. On the other hand, though, we have also further improved processes in our core business of vacuum pumps and components. All in all, this raised our earnings per share from € 1.34 to € 2.62, a record level in the TecDAX.

The stock markets have responded to this: The trading price of Pfeiffer Vacuum shares advanced from € 32.87 on January 3, 2005, to € 46.17 on December 30, 2005, i.e. by 40.5 %!

Pfeiffer Vacuum is and will continue to be a rock-solid enterprise that is free of scandal, but possesses courage, openness, a willingness to take risks and a health dose of optimism.

We are going to do everything in our power to continue to please you, our shareholders, in the future.

Yours truly,



Wolfgang Dondorf

Report of the Supervisory Board

Dear Shareholders,

The 2005 fiscal year was characterized by both political change and insecurity as well as economic stagnation. Yet Pfeiffer Vacuum was nevertheless able to do well in this environment. The DVD equipment line of business, which we had discontinued in spring 2005, was only able to have a minor effect on our results, while significant sales and profitability gains were achieved in our core field of business, "vacuum pumps and components."

Supervisory Board meetings and content

In four meetings during the 2005 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 took place on March 14, June 8, August 1 and November 7, all of them in Asslar. Dr. Oltmanns, Professor Kügler, Mr. Anderson and Mr. Timmerbeil attended the meeting on August 1 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, regularly discussing with him and deciding upon the course of the audit, the main focuses of the audit and particular questions relating to the audit. In addition to the course of business, Supervisory Board meetings also focused on new technology developments as well as the Company's capital investment policy and its sales offensive in Asia, the development of the Pfeiffer Vacuum Trust e. V. registered association, measures in connection with the introduction of internal controls pursuant to Section 404 of the Sarbanes Oxley Act (SOA), as well as winding

up DVD equipment business in connection with the liquidation of Pfeiffer Vacuum Systems GmbH. 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 ("KonTraG") 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 Boards 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. The development of the economy and its impact on the Company were also the subject of intensive discussions between the Management and Supervisory Boards. The budget for the 2006 fiscal year was discussed and adopted.

Deliberations on the Company's strategic alignment

Audit

In accordance with the resolution adopted by the Annual Shareholders Meeting on June 8, 2005, 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"), as well as the financial statements of its subsidiaries where prescribed by law. Pursuant to § 292a of the German Commercial Code ("HGB"), which is still applicable to the Company, consolidated financial statements conforming to the rules of the German Commercial Code were not prepared. The audit focuses defined by the Audit Committee and the independent auditor included certain line items in the balance sheet, the winding up of the Company's DVD business, the consolidation, as well as the U.S. GAAP adjustments. The Annual Financial Statements, Management's Discussion and Analysis, as well as the consolidated financial statements for the 2005 fiscal year presented in accordance with U.S. GAAP, all of which were prepared by the Management Board, were audited by the independent auditor and received his unqualified opinion.

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 on March 13, 2006 relating to the financial statements. 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 2005.

Asslar, March 2006 Supervisory Board

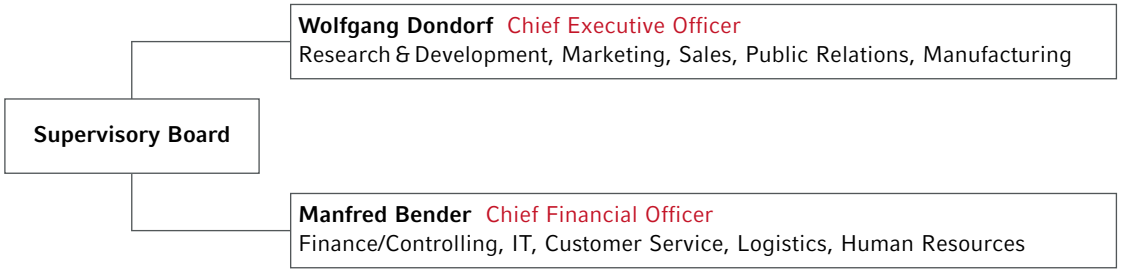
Pfeiffer Vacuum Profile

Headquarters:	Asslar, Germany
Established:	1890
Purpose of the Company:	To develop, manufacture and market components and systems for vacuum generation, measurement and analysis
Manufacturing site:	Asslar, Germany
Workforce:	691 people worldwide
Operational floor space:	Approximately 80,000 m^2
Sales and service:	12 subsidiaries and over 20 agencies worldwide
Export ratio:	73 %
Quality management:	Certified under ISO 9001:2000
Environmental management:	Certified under ISO 14001:2004
Stock exchange listings:	
New York Stock Exchange:	1996, as the first medium size German enterprise
Deutsche Börse:	1998, second listing on the Neuer Markt Stock Exchange, today the Deutsche Börse Prime Standard/TecDAX
Accounting:	U.S. accounting principles (U.S. GAAP)
Capital stock:	K € 22,504
Number of shares:	8,790,600 no-par shares
Free-float:	100 %
Cash and cash equivalents:	€ 61.7 million
Equity ratio:	81.1 %

Management and Supervisory Boards

Management Board

The Management Board consists of two members: Diplom-Ingenieur Wolfgang Dondorf (Chief Executive Officer) and Diplom-Betriebswirt Manfred Bender (Chief Financial Officer). These two men are responsible for the Company's further development and strategy. Moreover, they are also highly involved in the Company's day-to-day activities and bear operational responsibility:



Supervisory Board

The Supervisory Board consists of six members:

Dr. Michael Oltmanns (Chairman)
Attorney at Law and Tax Advisor, Stuttgart

Prof. Dr. Klaus-Jürgen Kügler (Vice Chairman)
Dean at the Giessen-Friedberg Technical University

Michael Anderson
Investment Banker, New York (U.S.A.)

Edgar Keller
Commercial Staff Member, Solms, Employee Representative

Günter Schneider
Chairman of the Employee Council, Leun, Employee Representative

Götz Timmerbeil (Chairman of the Audit Committee)
Certified Public Accountant and Tax Advisor, Gummersbach

From left to right:
Michael Anderson · Edgar Keller · Prof. Dr. Klaus-Jürgen Kügler · Dr. Michael Oltmanns · Götz Timmerbeil · Günter Schneider

Corporate Governance Report

Pursuant to Point 3.10 of the German Corporate Governance Code

The recommendations and suggestions contained in the German Corporate Governance Code have already been a firm element of our Corporate Governance for years, thus eliminating the need for any past or present material adaptations to reflect this Code. Pfeiffer Vacuum Technology AG has been in compliance with the recommendations set forth in the German Corporate Governance Code as amended June 2, 2005, since the last Statement of Compliance in December 2005 with the variances set forth within. The following points are in variance with the recommendations set forth in this Code:

- No agreement was able to be reached in negotiations with our liability insurance (so-called D & O insurance) carrier to obtain a lower premium if a deductible is arranged. We will therefore not arrange for a deductible. A deductible would not improve the overall motivation and sense of responsibility of the members 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 members of the Management Board has in the past and presently still is being stated collectively in the consolidated financial statements in the chapter entitled "Notes to the Financial Statements."
  (Point 4.2.4 of the Code)
- The members of the Supervisory Board have in the past received and presently still are receiving fixed compensation, which does not contain any performance-related variable income components. Their compensation is stated collectively in the Notes to the Financial Statements.
  (Point 5.4.5 of the Code)

Shareholders

Our Financial Calendar, which is published in the Annual Report, in the Quarterly Reports and on our website, informs our shareholders and other interested parties about major dates. At the Annual Shareholders Meeting, our shareholders are able to either exercise their voting rights themselves or to have them exercised by a proxy of their choice or by an individual named by the Company who will be bound by their instructions.

Collaboration between the Management and Supervisory Boards

The Management and Supervisory Boards collaborate closely at quarterly meetings of the Supervisory Board, as well as at special meetings and conference calls if required. The Management Board reports to the Supervisory Board on the general position of the corporate group, including its risk position, through a monthly reporting system established specifically for this purpose. Detailed information on the work of the Supervisory Board is contained under the chapter entitled “Report of the Supervisory Board” on page 16.

The term of office of the members of the Supervisory Board ends upon the adjournment of the Annual Shareholders Meeting ratifying the actions of the Supervisory Board for the 2005 fiscal year. The Supervisory Board submits nominations for the new election of members. In selecting the nominees, care is taken to assure that the Supervisory Board will at all times be composed of members who possess the requisite expertise, skills, abilities and professional experience, as well as sufficient independence. Both the international business activities of the corporate group as well as potential conflicts of interest are taken into consideration in this regard.

The Company has taken out liability insurance for the members of the Management and Supervisory Boards of Pfeiffer Vacuum Technology AG. No consultancy or other contracts for services or work were in force between members of the Supervisory Board and the Company during the period covered by this report. Should, in exceptional cases, a member of the Supervisory Board be active for the Company, for example as legal counsel, such activity must be approved by the Supervisory Board. Members of the Management and Supervisory Boards were not subject to any conflicts of interest, which must be disclosed to the Supervisory Board without delay.

Management Board

The Management Board consists of two individuals: Diplom-Ingenieur Wolfgang Dondorf (Chief Executive Officer) and Diplom-Betriebswirt Manfred Bender (Chief Financial Officer). These two men are responsible for the Company’s further development and strategy. Moreover, they are also highly involved in the Company’s day-to-day activities and bear operational responsibility. The members of the Management Board work exclusively for Pfeiffer Vacuum and did not hold seats on any supervisory boards in the year 2005.

The four-eyes principle applies: Major decisions are always made jointly. Personal expenditures, such as travel expenses, for example, must be approved by the other member of the Management Board. In addition to collaborating closely with one another and mutually informing one another on a daily basis, Management Board meetings are conducted every two weeks. Minutes of these meetings are kept, with a copy being provided to the Chairman of the Supervisory Board. No donations are made to political parties. Modest donations are made only to local facilities, with the focus on both educational as well as social and sports engagement.

Compensation paid to members of the Management and Supervisory Boards

The compensation paid to members of the Management Board typically consists of a fixed element and a variable element. The fixed element remains constant for years. The members of the Management Board do not receive any stock options.

The Supervisory Board's Management Board Committee decides totally independently and without influence as to whether the members of the Management Board should receive a variable compensation element in addition to the fixed element. The Supervisory Board currently uses the factors of sales and income before and after taxes in stipulating the variable salary element (which is closely linked to the Management Board member's performance and the Company's success).

Fixed compensation is paid to the members of the Supervisory Board.

Transparency

Our corporate communications work strives to provide all target audiences with the same information at the same time. Private investors, too, can utilize the Internet to inform themselves about current developments on a timely basis. All ad-hoc press releases issued by Pfeiffer Vacuum Technology AG are made available to its shareholders on the Company's website. Pursuant to § 15a of the German Securities Trading Act, the members of the Management and Supervisory Boards of Pfeiffer Vacuum Technology AG must disclose purchases and sales of Pfeiffer Vacuum shares. Pfeiffer Vacuum publishes this information on the Internet under "Corporate Governance/Directors' Dealings."

The Chairman of the Supervisory Board Dr. Oltmanns holds the following seats: HPC AG, of Weinheim (chairman); Merkur Bank KGaA, of Munich (vice chairman); Jetter AG, of Ludwigsburg (chairman); Scholz AG, of Essingen (chairman). The other members of the Supervisory Board do not hold any seats.

Accounting and auditing

Shareholders and other interested parties are informed about the Company's position through its Annual Report and Quarterly Reports. All reports are made available to all interested parties simultaneously on our Internet website. In addition, we also provide detailed information about the employee participation programs in our Annual Report and the Quarterly Reports.

It was agreed with the independent auditor that the Chairman of the Audit Committee will be informed without delay with respect to any grounds for exclusion or prejudice which may arise during the course of the audit should they fail to be eliminated without delay. The independent auditor is tasked with also reporting without delay any and all observations and events that are material to the responsibilities of the Supervisory Board which may be determined in connection with the audit of the financial statements. Moreover, the independent auditor must also inform the Supervisory Board and/or include a notation in the audit report should he or she identify facts in connection with the audit of the financial statements that cannot be reconciled with the Statement of Compliance submitted by the Management and Supervisory Boards pursuant to § 161 of the German Stock Corporation Act.

Guido Hamacher, Sales

Pfeiffer Vacuum Share Performance

The positive development of the trading prices of our shares documents the confidence of our investors in the Company's long-term strength.

Pfeiffer Vacuum shares have been traded in New York since July 16, 1996, and in Frankfurt since April 15, 1998.

Deutsche Börse, Prime Standard, Frankfurt	
Stock Symbol:	**PFV**
International Securities Identification Number:	**ISIN DE0006916604**
Reuters Symbol:	**PV.DE**
New York Stock Exchange, New York	
Stock Symbol:	**PV**
International Securities Identification Number:	**ISIN US7170671025**
Number of shares issued:	**8,790,600**
Free-float as of December 31, 2005:	**100 %**
Market capitalization on December 31, 2005:	**€ 406 million**

The year 2005 did not live up to all of the hopes of investors and issuers. The corporations listed on the exchanges and the development of their trading prices were burdened by rising prices for raw materials and, in particular, by skyrocketing oil prices. Only as the year drew to a close did the mood brighten somewhat. Although many German industrial companies were able to earn higher profits, economic prospects for the year 2006 are mixed.

Pfeiffer Vacuum shares did well in this stock market environment.

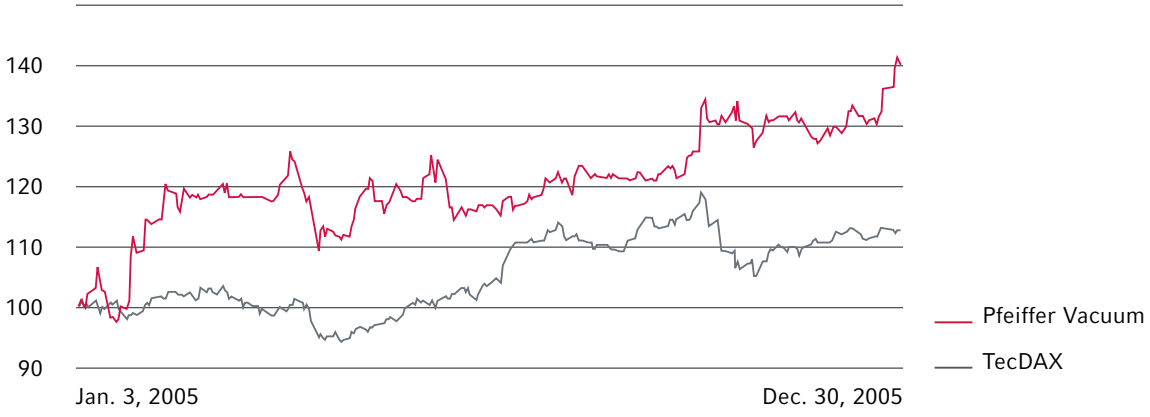
On the Deutsche Börse Stock Exchange in Frankfurt

During the course of the year 2005, Pfeiffer Vacuum shares developed on a clearly more positive note than the TecDAX. While the TecDAX rose by 12.7 % from 529 to 596 points, Pfeiffer Vacuum shares advanced by 39.7 %, opening at a trading price of € 32.87 on January 3 and closing at € 46.17 on December 30. They reached their low for the year of € 31.60 on January 19, their high for the year of € 42.75 on December 29. Their average trading volume was 24,656 shares.

Pfeiffer Vacuum holds a strong mid-field position in the TecDAX technology index in terms of market capitalization, as opposed to one of the last places on the basis of trading volume due to the shares' relatively low daily trading volumes. The Company offers one of the highest dividend yields in the TecDAX. Pfeiffer Vacuum shares are also included in further Deutsche Börse indices, e.g. in the H-DAX, in the Mid Cap Market Index, the C-DAX, the Prime Industrial and the Technology All Share.

The following graphic illustrates the positive performance of our shares by comparison with the TecDAX:

Share Price Development in % Pfeiffer Vacuum/TecDAX



On the New York Stock Exchange (NYSE)

The trading volume of Pfeiffer Vacuum ADRs on the New York Stock Exchange was significantly lower than on the Frankfurt exchange. Trading prices in New York generally paralleled developments in Frankfurt. Their high for the year of US$ 55.40 was reached on December 29, their low for the year of US$ 41.62 on January 20. Of the total of 8,790,600 shares issued, 843,633 American Depositary Receipts (ADRs) were registered in New York at year-end, representing 9.7 % of total shares (2004: 12.0 %). No single fund or individual investor held more than 5 % of the Company's ADRs in 2005.

North American investors continue to display strong interest in Pfeiffer Vacuum. Investors in New York, Denver, Chicago and San Francisco in the United States, as well as in Montreal and Toronto in Canada, were visited during the course of two roadshows. Chief Financial Officer Manfred Bender presented the Company at Dresdner Kleinwort Wasserstein's German Mid Cap Investment Conference in New York on October 19, 2005. Various American investors visited us in Germany in 2005 in order to get a first-hand look at Pfeiffer Vacuum. Many American funds and investment houses are now buying our shares in Frankfurt, as trading volumes there are higher than in New York. Some American shareholders have been invested in Pfeiffer Vacuum since its initial public offering in New York in July 1996, and continue to have great confidence in the management and medium-term development of the Company with its sound financial footing.

Proposed dividend

Dividend up sharply from the year before

Pfeiffer Vacuum is one of the few corporations in the TecDAX that for years has enabled their shareholders to participate in their company's success in the form of a dividend. In 2005, the Company's profitability rose significantly. The Management and Supervisory Boards will therefore propose to the Annual Shareholders Meeting that our shareholders participate in the Company's success in the form of a dividend in the amount of € 1.35. The dividend will thus be 50 % higher than the year before (€ 0.90). With a dividend yield of 2.9 %, Pfeiffer Vacuum is one of the highest-dividend issues in the TecDAX.

Shareholder structure

According to both a study conducted to identify our shareholder structure as well as our own estimates, more than 30 % of our shares are held by U.S. mutual and pension funds. Around 40 % are owned by European mutual funds, first and foremost in Luxembourg, London and Scotland. The remainder are held by German funds and small investors.

On March 24, 2005, Arnhold and S. Bleichroeder Holdings Inc. and the First Eagle Overseas Fund with headquarters in New York notified us that they had crossed the 10 % reporting threshold with holdings of 10.4 %.

Chicago-based Harris Associates L. P. reported on June 3, 2006, that they were again below the 10 % reporting threshold with holdings of 9.83 %.

Andrew A. Ziegler and Carlene M. Ziegler, the owners of Artisan Investment Corp. in Milwaukee, informed us on June 14, 2005, that they had crossed the 5 % reporting threshold with holdings of 6.9 % of our shares.

100 % of our shares are broadly held

These notifications do not have any influence on the Company's free-float position. Since we have neither legacy shareholders nor any other beneficial owners, 100 % of the Company's shares continue to be broadly held.

Investor Relations

Ongoing contact with our investors is naturally an important commitment for us. In 2005, we participated in six investor conferences in Bad Ragaz, Frankfurt, Kronberg, London, Munich and New York (2004: 6). In connection with the announcement of our 2004 annual results, we conducted a financial press conference in March 2005, as well as an analyst conference in Frankfurt that was attended by over 40 participants.

At 17 roadshows (2004: 18) in all major financial centers in Europe, as well as in the United States and Canada, the members of the Management Board presented our business model and commented on the Company's opportunities and risks. Some 30 visits to the Company on the part of investors, as well as regular conference calls with analysts and investors, document our close contact with the financial world.

The regular Annual Shareholders Meeting on June 8, 2005, was attended by about 400 shareholders, representing a presence of 31 %. All resolutions carried with high majorities. On the day of the Annual Shareholders Meeting, we traditionally invite our investors to visit our facility in order enable them to get a first-hand look at our Company. In the year under review, nearly 100 shareholders again took advantage of this opportunity.

A dedicated Investor Relations page on the Internet at www.pfeiffer-vacuum.net affords everyone an opportunity to inform themselves in detail about everything relating to Pfeiffer Vacuum shares, to download annual reports, quarterly numbers and press releases, or to sign up on an e-mail distribution list to receive future corporate news. An interactive version of the 2005 Annual Report is also available on the Internet.

Björn Nickel, Controlling · Jochen Böttcher, Development · Elvira Wagner, Turbopump Assembly

Around 20 analysts from Germany and other countries regularly follow our Company, assessing Pfeiffer Vacuum's current position and prospects in close contact with the Management Board and the Investor Relations Department. This year, the analysts were particularly interested in both the Company's development following our discontinuation of DVD business as well as in the disposition of our retained earnings. "Buy" and "accumulate" recommendations predominated in 2005.

Good financial communication rewarded

The reward for the Company's open, ongoing financial communication included three prizes in 2005:

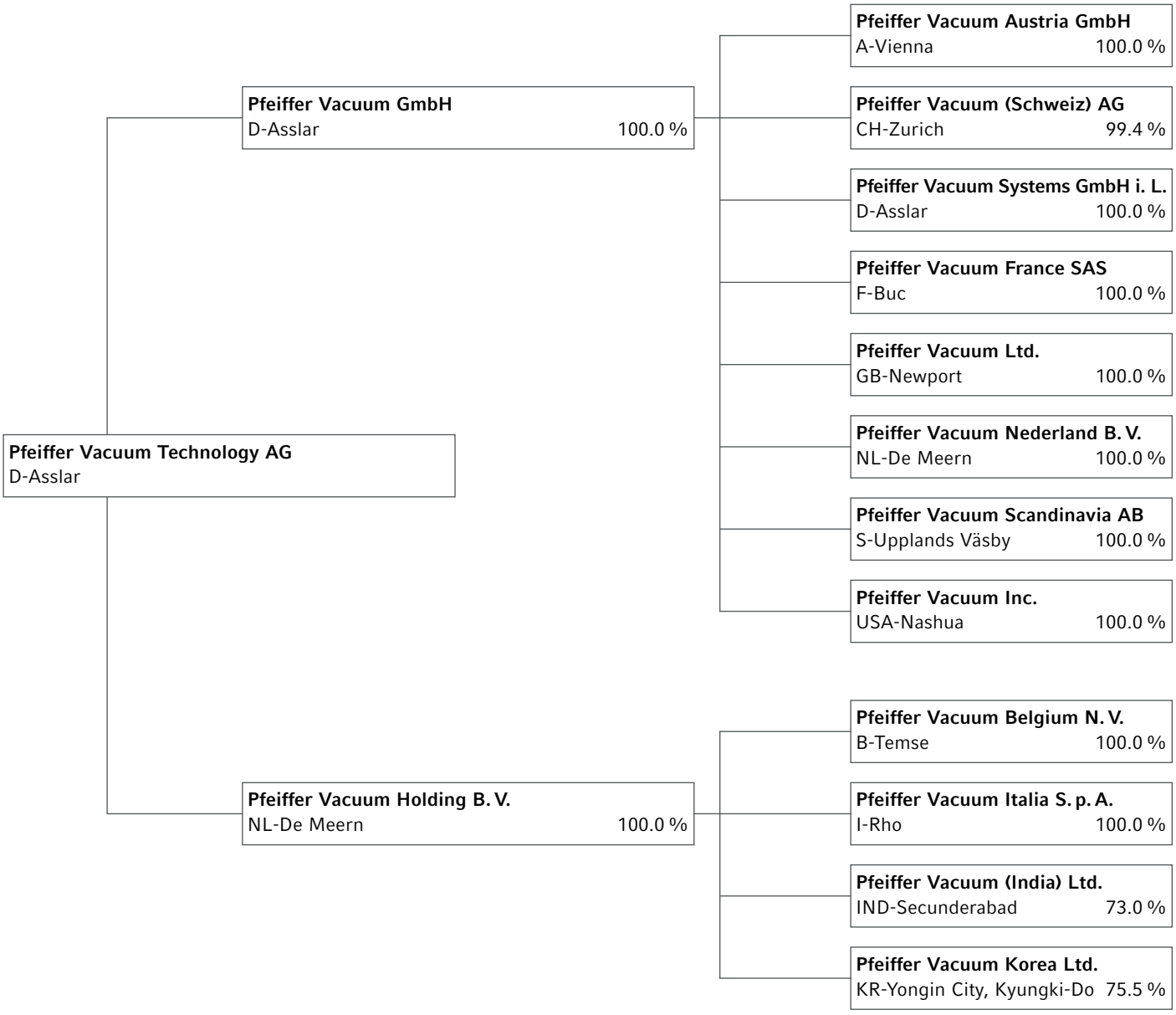
- 3rd place in the Mid Caps category and in the overall rankings in the 2005 BIRD – Best Investor Relations Deutschland – survey of small investors conducted by Börse Online.
- 2nd place in the TecDAX in the 2005 CAPITAL Investor Relations Award stemming from a pan-European survey of analysts.
- 1st place in the TecDAX segment in manager magazin's competition to identify the best Annual Reports of 2004. Especially high marks went to our annual report's cogent language, its clear financial reporting, its portrayal of the complex issue of vacuum, as well as to the authenticity of all statements. For years, our Annual Reports have numbered among the five front-runners – and this year we made it all the way to the top. We are especially proud of our success in this prestigious competition.

Pfeiffer Vacuum Share Highlights

		2005	2004	2003
Number of shares issued		8,790,600	8,790,600	8,790,600
Highest trading price*	€	47.25	35.15	30.49
Lowest trading price*	€	31.60	25.40	17.00
Trading price at year-end*	€	46.17	33.00	28.00
Market capitalization at year-end	millions of €	406	290	246
Dividend per share	€	1.35	0.90	0.70
Dividend yield	%	2.9	2.7	2.5
Earnings per share	€	2.62	1.34	1.46

* Deutsche Börse

Group Structure



Modern cities thanks to high-tech developments.

Living, working, communicating. High-tech products make modern life simpler and more convenient. Vacuum is used to coat the architectural glass that forms the facades of many high-rises. Vacuum-coated solar cells on buildings help to conserve energy. The industrial production of lighting, such as fluorescent and neon tubes, light emitting diodes (LEDs) or incandescent lamps, transforms nighttime cities into a sea of light. Cutting-edge developments in the field of semiconductor technology, such as electronic components in computers, mobile phones, traffic light control systems, mobile communication and television transmitters. They had all be inconceivable without vacuum technology.

The Company >>

Product Portfolio

For more than 100 years, we have been setting milestones in vacuum technology with our products.

Our extensive line of products and services ranges from individual components right through to complex vacuum systems. True to the motto "Vacuum – Powering a World of Innovation," we pride ourselves in finding the right vacuum technology solution for every customer and every application.

Our product range

Vacuum generation
Turbopumps
Rotary vane pumps
Dry pumps
Roots pumps

Vacuum measurement and analysis equipment
Vacuum gauges and controllers
Mass spectrometers
Leak detectors

Installation elements
Flanges
Valves

Vacuum systems
Vacuum pumping stations
Leak detection systems

Vacuum generation

Any number of high-tech products and articles used in daily life can only be manufactured in process chambers in which a vacuum is generated – similar to the conditions that exist in space.

We offer various types of pumps for a wide range of applications: Turbomolecular pumps, or turbopumps for short, rotary vane and Roots pumps, as well as dry pumps. They differ primarily with respect to their achievable ultimate pressures and design concepts.

Turbopumps

Turbopumps are the Company's most important product, accounting for 41 % of total sales in 2005 (2004: 39 %).

This class of pumps was invented at Pfeiffer nearly 50 years ago, and has since been steadily evolved. Pfeiffer Vacuum has now sold over 280,000 turbopumps worldwide.

Turbopumps for all applications in the high- and ultra-high vacuum

These pumps are available in a wide range of sizes – from the world's smallest and most compact turbopump with a pumping speed of 11 liters per second for analytical applications right through to large, 2,000-liter pumps that are primarily employed in the coating and semiconductor industries. A turbopump can generate a vacuum of up to 10^{-11} mbar; this corresponds to the pressure conditions that prevail in deep space nearly 1,000 km above the surface of the earth. Its rotor, i.e. the pump's rotating interior component, is comparable to the vanes in an aircraft turbine engine, although it spins significantly faster at speeds of up to 90,000 revolutions per minute! In order to be able to handle these extremely high speeds on a continuous basis, all components are manufactured with the utmost precision from special, high-quality materials in our own factory.

In addition, the rotor bearing systems also play a major role in the quality and reliability of these pumps:

- Mechanical bearing system with precision ceramic bearings
- Magnetic bearing system comparable to the bearing system employed in the Transrapid mag-lev bullet train

Volker Schatz, Backing Pump Assembly

The **CompactTurbo™** series incorporates a unique rotor design featuring a hybrid bearing system: A permanent-magnet bearing on the high-vacuum side and a ceramic ball bearing on the backing-vacuum side. This offers significantly longer service life and greater reliability by comparison with competition products. Given the extremely high speeds involved, the installation attitude of the pump is critical, as pump-damaging gyrations might otherwise occur. The preferred installation attitude is vertical or horizontal. However in order to also be able to serve customers who need to operate the pumps in other positions, a series of models was developed that can be installed in any desired attitude.

The **MagneticTurbo™** series consists of high-performance turbopumps equipped with full mag-lev bearing systems, making them contactless and maintenance-free. These pumps are employed first and foremost in analytical, industrial and research & development applications. With the HiMag™, we have brought to market the world's first mag-lev turbopump to feature integral drive electronics. Due to its large flywheel masses and high speeds, particular attention was paid to safety in developing this pump, in addition to reliability and robustness. Patented fasteners round out these safety features. The HiMag™ is especially suitable for the semiconductor and coating industries.

During the year under review, we brought an innovative pump to market, the **OnTool™ Booster**. This high-vacuum pump is capable of expelling against atmospheric pressure and does not require a backing pump to operate. Further information about the OnTool™ Booster can be found in the chapter entitled "Research & Development" on page 48.

TurboCube™ pumping stations

In addition to stand-alone pumps, Pfeiffer Vacuum also offers ready-to-run pumping stations for analytical applications and research & development needs. These TurboCube™ pumping stations are modularly designed and essentially consist of a turbopump, a backing pump, a vacuum gauge, as well as a controller. All of the pumping station components are installed in an attractive housing and operate in accordance with the "plug and play" principle.

Turbopumps always require so-called **backing pumps** in order to compress the advanced gas against the atmosphere and expel it. Rotary vane and dry pumps are employed as backing pumps.

Rotary vane pumps

High-performance rotary vane pumps for all applications in the low and medium vacuum

Rotary vane pumps are employed as backing pumps for turbomolecular and Roots pumps, in addition to being used as stand-alone pumps. We offer models with pumping speeds of from 2.5 to 630 m^3/h for all applications in the low- and medium-vacuum ranges.

The single-stage, oil-sealed UnoLine™ rotary vane pumps generate low vacuum at an ultimate pressure of up to 0.3 mbar. They are employed as robust, dependable and low-maintenance backing and stand-alone pumps in numerous fields in industry and research.

The two-stage DuoLine™ rotary vane pumps are designed for applications in the low- and medium-vacuum ranges of up to 10^{-3} mbar. These pumps afford reliable operation even in such demanding industrial applications as curing, metallurgical processes or cast-resin plants.

In the case of these kinds of rotary vane pumps, the pumping system is typically driven by a motor via a shaft. The shaft has to be sealed by means of radial shaft seal rings, a time-consuming and costly proposition. As a result of wear, oil leaks will occur in this location over the course of time. This prompted Pfeiffer Vacuum to develop an innovative drive concept for these pumps. The pump housing is hermetically encapsulated, with a magnetic coupling providing a contactless drive system. The advantages for our customers: No oil losses, making these pumps clean and environmentally compatible, plus longer maintenance intervals and lower operating costs.

Dry pumps

RevoDry™ – new screw pump

In rotary vane pumps, the pump chamber is typically sealed by means of a fine film of oil. The gas being advanced is thus bound to come into contact with this oil. Pfeiffer Vacuum has developed a series of dry pumps for processes in which this is undesirable because these oils could impact the process. A dry pump does not require lubricants in the pump chamber; this guarantees a high level of process purity and very good environmental compatibility. These pumps are predominantly employed in the semiconductor industry, in freeze-drying and in metallurgy.

In the dry pump class, Pfeiffer Vacuum offers a range of:
- Diaphragm pumps
- Reciprocating pumps (XtraDry™), and, most recently,
- Screw pumps (RevoDry™)

During the year under review, a new series of dry screw pumps, RevoDry™, was brought to market in five sizes ranging from 50 to 490 m^3/h.

Roots pumps

We offer a complete line of Roots pumps for applications in the low- and medium-vacuum ranges of up to 10^{-3} mbar. These pumps are characterized by an optimum ratio between pumping speed and physical size. The pumping speeds of the various pump sizes range from 250 to 25,000 m^3/h.

Roots pumps for applications in the low- and medium-vacuum

Applications in which Roots pumps are employed include:
- Coating industry
- Packaging technology
- Chemical and pharmaceutical industry
- Thin-layer technology
- Space simulation
- Metallurgy
- Freeze-drying

In late 2004, Pfeiffer Vacuum brought two innovations to market that generated their first sales in 2005:
- The world's first series of magnetically coupled Roots pumps
- ADEx series Roots pumps

In magnetically coupled Roots pumps, the housing is hermetically encapsulated, with the pump being driven in a contactless manner via a magnetic coupling – just as in the above-described rotary vane pumps. However these Roots pumps offer significantly higher pumping speeds of from 250 to 6,000 m^3/h. Particular advantages for the customer: No oil losses, making them clean and environmentally compatible, as well as longer service intervals and lower operating costs. Because of their very low leakage rates, these magnetically coupled Roots pumps are employed in both thin-layer technology as well as in industrial processes involving toxic and aggressive gases.

The ADEx series of Roots pumps was specially developed for the chemical and pharmaceutical industry. These pumps satisfy the explosion-hazard requirements of EU Directive 94/9.

Lothar Brückmann, Product Management · Josef Usleber, Engineering

CombiLine™ pumping stations

To complement the stand-alone pumps, Pfeiffer Vacuum also offers a broad range of CombiLine™ Roots pumping stations. The Company additionally offers custom solutions for specific processes, e.g. for solar technology. Our services in this connection range from vacuum technology consulting to concept, design, construction and installation, right through to putting the pumping station into operation and training the operating and service personnel.

In 2005, the percentage of the Company's total sales accounted for by backing pumps, including Roots pumps and pumping stations, rose to 14 % (2004: 13 %).

Vacuum measurement and analysis equipment

Vacuum gauges

In addition to vacuum generation pumps, Pfeiffer Vacuum also offers its customers vacuum measurement and analysis equipment. These units are especially important, as a well-functioning vacuum process hinges upon the quality of the vacuum and thus the total pressure.

Pfeiffer Vacuum offers three different series of total pressure measurement instruments:

- ActiveLine: A proven series of gauges with a large number of different sensors whose reliability has been proven in innumerable applications.
- DigiLine™: Digital gauges for industrial applications in which sensors have to be integrated into electrical control systems.
- ModulLine: Special, radiation-resistant gauges for research applications.

Vacuum analysis equipment

In production processes, it is often not only important to know "how much" is in something, but also "what it is." Applications for mass spectrometers include environmental analysis, steel manufacturing, plasma analysis in coating processes for semiconductor chips, as well as research.

Pfeiffer Vacuum offers helium leak detectors to avoid bothersome, quality-reducing leaks in products and processes. These devices are employed e.g. for quality assurance in building and operating vacuum systems, refrigerators, air conditioning systems, piping systems, pressure vessels, automotive fuel tanks and brake lines. Their modular design affords application-specific solutions; the simple handling and robustness of these units are highly valued by their users.

Installation elements

In order to interconnect the various vacuum components or disconnect them from one another, Pfeiffer Vacuum offers a broad selection of installation elements such as flanges, fasteners, gaskets, seals and valves.

In 2005, the percentage of total sales accounted for by measurement and analysis equipment and installation elements declined to 26 %, as opposed to 28 % in 2004.

Vacuum systems

In addition to individual vacuum components, such as pumps, measurement equipment and components, Pfeiffer Vacuum also develops and manufactures complete vacuum systems for customer-specific processes. Such systems comprise the following assemblies:

- Recipient (vacuum chamber)
- Vacuum pump or pumping station
- Measurement and regulating equipment
- Electrical/electronic control

Products in the systems segment also include helium leak testing systems, or leak detection systems for short. Environmental protection, quality assurance and cost optimization needs are placing very high demands upon the leak-free integrity of numerous components, such as vehicle fuel tanks, aluminum wheel rims, chilled water piping and compressors for air conditioning systems, as well as food packagings and pressure vessels. On the one hand, it is necessary to satisfy increasingly strict legal limits and quality requirements, while minimizing testing times and operating costs on the other. These requirements are satisfied by the helium leak detection systems from Pfeiffer Vacuum with their innovative measurement technology and process-adapted automation technology.

Customer-specific solutions for leak detection systems

During the year under review, the percentage of total sales accounted for by all vacuum systems amounted to 4 %, as opposed to 3 % in 2004.

Service

A close-knit, worldwide service network provides prompt support to our customers in connection with product maintenance, repair or replacement, in supplying replacement parts and in putting systems into operation. Especially in connection with turbopumps, which are employed throughout the world, we offer an unrivaled advantage over our competitors: Bearing changes can be performed on site – thus eliminating the costly and time-consuming need to send the pump in to a ServiceCenter or the factory. This means that we can offer our customers a very favorable cost of ownership.

The only manufacturer of turbopumps to perform bearing changes on site

In 2005, service accounted for 15 % of total sales, as opposed to 17 % in 2004. This modest decline was attributable to the simultaneous rise in sales of new products.

Sales by Product 2003 – 2005 (as a percentage of total sales)

	Turbopumps	Measurement and Analysis Equipment, Components	Service	Backing Pumps	Systems
2003	39	25	19	13	4
2004	39	28	17	13	3
2005	**41**	**26**	**15**	**14**	**4**

Dr. Daniel Neth, Human Resources

Research & Development

With the invention of the turbopump, we have been setting new standards in vacuum technology for decades.

Our physicists and engineers are hard at work in modern laboratories helping to enable even better vacuum to be generated and measured in even less time with our products. 76 engineers, physicists and technicians work in the field of research & development at Pfeiffer Vacuum to develop new products and evolve our existing product portfolio. We also collaborate closely with universities and with companies in Germany and other countries that possess key technologies. Pfeiffer Vacuum regularly sponsors postgraduate thesis work in the field of research & development and offers internships for physics or engineering students. Pfeiffer Vacuum has been providing work opportunities at the Company under the two-track "Studium Plus" work-study program since its introduction in the year 2002. Under this course of study, where the emphasis is on the real world, students spend around half of their time at the technical university and the other half at industrial companies. This year, too, we again hired graduates of this course of study to work for our Company.

Nearly 50 years ago, the turbopump was invented at Pfeiffer. Today, it is a generic name for an ideal vacuum pump for generating high and ultra-high vacuum in an extremely varied range of potential applications. Pfeiffer Vacuum has steadily broadened its technology leadership in this class of pumps, bringing any number of evolved models to market during the year covered by this report.

In 2005 and 2004, research & development expenditures totaled € 6.4 million. Due to increased sales our research & development ratio was 4.0 % of total sales (2004: 4.2 %).

Patents secure our technology edge

Eleven new patent applications were filed in the year 2005, with six patents being granted on pending applications. We hold a total of some 70 fundamental patents worldwide, along with more than 100 other patents.

We have been sponsoring the prestigious Röntgen Prize for many years

For over 40 years, we have been one of the two companies that sponsor the prestigious Röntgen Prize, which is awarded annually at Justus Liebig University in Giessen in recognition of outstanding research work performed by the coming generation of scientists. This year, the prize went to Dr. Thorsten Weber, who heads up the Helmholtz Next Generation University Group at the University of Frankfurt for his pioneering contributions in "elucidating multi-particle dynamics in fundamental atomic and molecular systems."

The following products were brought to market during the year under review:

OnTool™ Booster – A new high-vacuum pump that works against atmosphere
This innovative vacuum pump offers impressively compact design, combined with a very high pumping speed and an ultimate pressure of less than 10^{-5} mbar. It is a high-vacuum pump that is able to work against atmospheric pressure. This means that the OnTool™ Booster operates without the need for a backing pump. Thanks to this feature, the pump can be employed directly at the vacuum chamber to be evacuated. This translates into both space and cost savings. The OnTool™ Booster is a highly interesting solution for clean applications in the coating market, the semiconductor industry, as well as in research & development, e.g. for load-lock or transfer chambers. Last but not least, its modern design makes the OnTool™ Booster a highly attractive product.

RevoDry™ series of dry screw pumps
With RevoDry™, Pfeiffer Vacuum debuted a new series of dry-sealing pumps. A high level of process purity and very good environmental compatibility are assured because the pump chambers in these pumps are oil free. As an additional plus, they can be employed in a broad range of applications, such as in coating, metallurgy, freeze-drying and as a load-lock pump. Their housings and rotors of nodular cast iron and a corrosion-resistant coating on all surfaces that come into contact with the media make this pump a rugged and versatile product. The process versions of the RevoDry™ are optimized for all applications involving particulate matter or dust. Should higher pumping speeds of up to 3,500 m^3/h be required, these pumps can also be used in combination with Roots pumps.

Further turbopumps with integrated power supplies
In 2004, we brought small and medium-size turbopumps to market that feature integrated drive electronics and an integrated power supply. These pumps are primarily wanted by customers in the analytical industry. During the year covered by this report, we expanded this option to also include our large TPH 1201, TPH 1501, TPH 1801 and TPH 2301 turbopumps, as well as the HiMag™. Their IP 54 protection class makes the integrated power supplies outstandingly suited for punishing industrial applications. Employment of these special pump versions is especially meaningful in connection with coating technology, which involves plants of large physical size incorporating numerous installed pumps, as this application offers considerable cost-saving potential with respect to the space required for switchgear cabinets as well as cabling needs.

ActiveLine TPR 280 and 281 total pressure transmitters
These total pressure transmitters are an evolution of a thermal conductivity vacuum meter. Offering a measuring range that extends from low to high vacuum, the TPR 280 is the vacuum technology workhorse. With a view to its wide variety of potential applications, this product has been specially optimized with respect to ruggedness and reliability. The Type TPR 280 is employed with a variety of flange versions for general vacuum applications. The Type TPR 281 is designed for corrosive gases. With its 0 – 10 volt signal output, it can easily be integrated into plant control systems.

ActiveLine PCR 260 total pressure transmitter
Through an ingenious combination, the PCR 260 avoids system-necessitated application limitations on thermal conductivity vacuum meters. By linking a capacitive sensor with a thermal conductivity vacuum meter, the application options range all the way to low vacuum. The PCR 260 is especially suitable for load-lock applications in which materials have to be introduced into vacuum process systems. This product additionally offers a highly convincing price-performance ratio.

Overall, Pfeiffer Vacuum will be bringing product innovations to market in all product segments in 2006 and living up to its reputation as a full-line vendor of high-quality, cutting-edge vacuum technology.

Markets and Applications

As the leading manufacturer of vacuum products, we offer a custom-tailored solution for every customer need.

The motto of this year's Annual Report is "Vacuum – Powering a World of Innovation." In 2005, we were again able to demonstrate our technology competence in solving all questions relating to vacuum. We tapped into new markets, won new customers and strengthened contacts with existing customers in all industrialized nations throughout the world. In a difficult market environment, we succeeded in replacing competitors at key accounts, and thus growing faster than the competition.

We classify the vacuum market into the following market segments:

- Analytical Industry
- Industrial
- Research & Development
- Coating
- Semiconductor Industry
- Chemical and Process Technology
- Storage Media

Sales by Market Segment 2003 – 2005 (as a percentage of total sales)

	Analytical Industry	Industrial	Research & Development	Coating	Semi-conductor Industry	Chemical and Process Technology	Storage Media
2003	22	19	22	14	14	4	5
2004	22	23	21	13	13	4	4
2005	**25**	**24**	**19**	**14**	**11**	**4**	**3**

This chapter explains in which markets our vacuum products are primarily employed, which developments occurred during the year under review, and which opportunities and risks we envision for the coming year.

Analytical industry market segment

Only with vacuum would modern analytical methods be conceivable

Modern analytical systems would be inconceivable without vacuum technology. Our long years of customer intimacy, our applications know-how and our ability to identify new customer needs in the various fields of the analytical industry are the keys to Pfeiffer Vacuum's success in this market segment.

Mass spectrometry is employed for testing substances and materials in the medical, pharmaceutical and biotechnology industries. New trends in this sector include portable systems or table-top devices in medical practices, as well as complex, high-resolution systems for scientific investigation in medical centers or testing laboratories. We identified this development early on and have implemented it together with the system manufacturers. In 2005, we were able to win new partners in the United States, Europe and Asia.

In addition to mass spectrometry, the fields of leak detection, gas and surface analysis, as well as electron microscopy, are of crucial importance – both in quality assurance for processes and products used in daily life as well as in scientific experiments. Electron microscopes, which would not be able to operate without vacuum technology, are indispensable in studying nano- and other minute particles. In this sector of the analytical industry, too, Pfeiffer Vacuum supplies components and systems that are characterized by the utmost in reliability.

Selected successes during the year under review:

- More than 1,000 small turbo and rotary vane pumps have already been supplied to a key account in the United States.
- In Germany, we were able to win a new major account who builds measurement technology equipments for the chemical industry.
- A further analytical equipment manufacturer in Germany has now also been using our measurement technology since 2005, in addition to our rotary vane pumps. We were successful in replacing competition products here.
- We were also able to replace competition products at a large French manufacturer of analytical equipment.
- One customer showcased a highly complex mass spectrometer at the world's premier trade show for the analytical industry, Pittcon in the United States. This device offers first-class analytical speed and quality, and is fully equipped with vacuum technology from Pfeiffer Vacuum.

During the year under review, there was a sharp rise in contracts from all prominent manufacturers of analytical equipment in the United States, the United Kingdom and Germany. The percentage of the Company's total sales accounted for by the analytical industry market segment consequently rose to 25 % in 2005 (2004: 22 %). We anticipate disproportionate growth in the year 2006.

Industrial market segment

The ideal partner in the heterogeneous industrial market segment

Steadily rising demands are being placed upon quality in connection with the manufacture of industrial products. As a result, vacuum technology is taking on increasing significance. The wide variety of applications in the industrial sector include the fields of metallurgy (soldering, hardening, casting, nitriding, carburizing, melting, degassing and heat treatment under vacuum), electron beam and laser welding, freeze-drying, dry sterilization, plasma activation and surface treatment, central vacuum supply, vacuum drying in connection with parts cleaning, transformer and rolling oil recovery, vacuum potting of electronic components, as well as leak testing of components in the air conditioning and automotive industries.

Several interesting applications that have taken on significance for Pfeiffer Vacuum in the heterogeneous industrial market segment during the year 2005, especially with a view to the aspect of quality assurance, include:

- Air conditioning: More stringent environment regulations in the United States for existing air conditioning systems beginning in 2006 necessitate that their refrigerant circulation systems be retrofitted with more environmentally compatible components. Pfeiffer Vacuum supplied all of the vacuum components required in a production line for air conditioning components at a major manufacturer of compressors, which went into service in late 2005. The crucial factors in winning these contracts were our competent advice and our complete portfolio of rotary vane and turbopumps, leak detectors, mass spectrometers, valves and accessories.
- Vacuum potting: During the year under review, we won a major manufacturer of vacuum potting systems, where electronic components for the automotive industry are potted vacuum-tight. The crucial factors were our support and service in the People's Republic of China. In India, we succeeded in making the breakthrough as a supplier to a transformer manufacturer.
- Electron beam welding: A leading German manufacturer of wind turbines is using our Roots pumps to weld the wind turbine rotors.
- Lamp industry: One of the world market leaders is using our new OnTool™ Booster pump to manufacture xenon headlamps.
- Metallurgy: For the first time, we delivered complete vacuum pumping stations to a customer in Kazakhstan. Expansion of our sales and marketing activities in Eastern Europe is paying off here.
- Leak testing in the automotive industry: A total of five helium leak detection systems were delivered to a prominent U.S. manufacturer of fuel tanks. Up to 120 tanks an hour can be tested in the system.

Pfeiffer Vacuum has firmly established itself among customers in the industrial market segment as a specialist for complex vacuum system solutions. We offer these customers what is probably the most complete range of vacuum pumps, gauges and systems, as well as the requisite worldwide service and technical training.

The percentage of the Company's total sales accounted for by the industrial market segment amounted to 24 % in 2005 (2004: 23 %). We anticipate further growth in this segment for the year 2006.

Research & development market segment

Major source of constant and relatively non-cyclical sales

Universities and major research centers in Europe, the United States, Asia and other parts of the world have come to rely upon the quality and dependability of products from Pfeiffer Vacuum. At the same time, we also supply numerous industrial research facilities. And our products are also used in research into replenishable energies. Although public sector budget freezes and cuts ended in a slight sales degrees in this segment in 2005, new major research projects in Germany and other countries are opening up growth potential for the future.

Nanotechnology is on everyone's lips today, both among the general public and in the research community. We were able to successfully place our products in projects relating to functional surface structures or developments in the field of lithography.

One spectacular segment, although it does not involve high sales volumes, is the field of space research. Pfeiffer Vacuum products, first and foremost turbopumps, have flown along on nearly all space missions in recent years. Various experiments on the International Space Station (ISS), for example, are currently being conducted with both pumps as well as mass spectrometers from Pfeiffer Vacuum. Space simulation chambers throughout the world utilize our high-performance, robust Roots pumps to thoroughly test out satellites under space-like conditions before they are launched.

Accounting for 19 % of total sales (2004: 21 %), the research & development market sector is a major source of constant and relatively non-cyclical sales.

Coating market segment

Pfeiffer Vacuum a firm part of the coating market segment

Modern products that are used in daily life would be inconceivable today without functional or decorative surfaces. The portfolio of coated products ranges from instruments to gears. Our customers in the coating market segment utilize our entire portfolio of products: Turbo and backing pumps, vacuum gauges and measuring equipment, flanges and valves.

There are a wealth of application examples for coating under vacuum:

- Architectural glass
- Antireflective or color coatings on eyeglass lenses
- Metalizing headlamp and light bulb reflectors
- Conductive coatings (ITO) on flat panel displays
- Mechanically resistant coatings (titanium nitrite) on tools
- Applying front and terminal contacts to solar cells
- Metalizing CDs and DVDs (see storage media market segment, page 57)

Pfeiffer Vacuum is the key suppler to the world's two most important vendors in the field of ophthalmics (eyeglass lens coating). We were able to post significant sales growth with these customers in 2005.

A major account in the automotive supply segment is using our HiMag™ turbopump in coating systems to enhance the surface of fuel injection systems in diesel engines. A further automotive supplier requires our products to produce decorate coatings on instruments and door handles.

In addition to numerous vacuum pumps and pumping systems for the photovoltaic market (solar energy), in 2005 Pfeiffer Vacuum delivered a large pilot plant for the production of thin-layer solar cells. This system stems from a joint development with the customer. Pfeiffer Vacuum supplied the entire vacuum system, including vacuum chambers, pumps, measurement technology, transport system, heating and system control, while the customer was responsible for the process equipment and know-how. The good results that have thus far been achieved with this innovative system (excellent efficiency factor of the solar modules coupled with low production costs) and the outstanding prospects in the photovoltaic market give rise to hopes that business will develop swiftly in this sector.

In 2005, we equipped seven systems for coating solar cells and organic light emitting diodes (OLEDs) with our vacuum components.

Because of their acknowledged reliability, customers are increasingly asking for our products in the field of retrofit business for glass coating systems. Multi-year maintenance contracts were signed with prominent customers.

Heinz Barfuss, Marketing · Gerhard Meyer, Product Management

EMO, the premier trade show in the field of mechanical wear protection, was conducted in Düsseldorf in 2005. Numerous exhibitors showed their lines of coated drills, milling cutters and other tools. Mechanically resistant coatings that can only be applied to the surface of these tools under vacuum are the key to longer tool service life. Nearly all manufacturers of coating machines for these applications utilize quality products from Pfeiffer Vacuum. With its new CompactTurbo™ pumps, Pfeiffer Vacuum has made the breakthrough at one of the world's largest operators of tool coating centers.

The coating market segment accounted for 14 % of total sales in 2005 (2004: 13 %). In late 2005, we saw an above-average level of new orders for pumps and components for solar and inline coating systems for the German and Chinese markets. We therefore anticipate stronger growth in this segment in 2006.

Semiconductor industry market segment

A dependable partner in the semiconductor market segment

Pfeiffer Vacuum classifies the following sub-segments in the semiconductor industry market segment: Microprocessor technology, flat panel display manufacturing, hard disk coating and wafer metrology. In these segments, we primarily supply turbopumps for coating (CVD, PVD), layer structuring (lithography and etching) and for modifying layer properties (ion implanters). In the field of electron beam systems, semiconductor layers are studied and repaired, if necessary, with the aid of our pumps. Moreover, numerous load-lock and transport chambers in semiconductor production systems are equipped with turbopumps from Pfeiffer Vacuum.

In 2005, manufacturers of semiconductor equipment in the United States and Europe saw sales slump by more than 20 %. Nor were we able to fully offset sales losses among several of our OEM customers (Original Equipment Manufacturer) through higher sales in the consumer segment; this resulted in a two point decline in the percentage of total sales accounted for by the semiconductor market segment to 11 % (2004: 13 %).

For the year 2006, we anticipate moderately rising investments on the part of systems manufacturers. Thanks to our good positioning among major manufacturers of semiconductor equipment, Pfeiffer Vacuum will benefit from this development.

Chemical and process technology market segment

Sales remained stable in the chemical and process technology segment

The applications in the chemical and process technology market segment are very closely related to those in the industrial system technology sector. Our new dry pumps, first and foremost, are being employed in this sector, along with our extremely reliable rotary vane and Roots pumps. In order to be able to do an even better job of catering to the specific needs in the field of process technology, a separate Pumping System Technology Department was created in 2005. Working in close collaboration with its customers, Pfeiffer Vacuum now no longer offers only pumps and components, but complete vacuum solutions. In addition to designing the vacuum technology, we also build the entire system specifically for the needs of the application in question and supply it on a turnkey basis. The primary applications in the field of chemical process technology are solvent recovery, extruder degassing, raw materials rectification and drying, as well as vacuum sterilization.

Business with the ADEx series of Roots pumps that were developed for these applications got off to a highly promising start. These pumps satisfy the requirements of the new European 94/9 EG explosion-protection directive.

The percentage of total sales accounted for by the chemical and process technology market segment amounted to 4 % in 2005 and 2004. We anticipate sales growth in 2006, in particular in connection with Achema, the world's largest chemicals trade show that is conducted every three years in Frankfurt.

Storage media market segment

Manufacturers of DVD systems count on our reliability

In early 2005, the decision was made at Pfeiffer Vacuum to withdraw completely from DVD system manufacturing business. The way was now free for us to win former system manufacturer competitors as customers for our vacuum pumps and components. We are now supplying our high-quality vacuum products to virtually all manufacturers of CD and DVD coating systems. However sales in this sector slumped heavily in 2005 as a result of overcapacities and ongoing format disputes.

Products from Pfeiffer Vacuum have also been qualified under the new "Blu-ray" and "HDTV" formats of the future. Pfeiffer Vacuum will be participating in this business as soon as the system manufacturers begin posting rising levels of new orders here.

During the year under review, the storage media market segment accounted for 3 % of total sales (2004: 4 %). Beginning in 2006, we will no longer be recording sales in the storage media segment separately, but including them in the sales of the over-arching market segment of coating.

Environment, Safety and Quality

We do not view any contradiction between the Company's sustainability and its economic activity.

Environmental protection

The Company's environmental management system was reviewed by an independent certifier in connection with a follow-up audit in October 2005. We passed the audit without any variances and a new certificate was issued under ISO 14001:2004.

All relevant environmental factors are regularly monitored and assessed. Nine environmental audits were conducted during the course of the year. The items that were audited included compliance with legal requirements in handling and storing hazardous materials. No material variances were identified.

A measure that had been planned in 2004, modernization of the air conditioning system, was implemented in 2005. We installed two new chilled water compressors with a total output of 1,600 kW. Additional coolers were installed for energy conservation during off-peak seasons. We spent a total of approximately € 700,000 to protect the environment and reduce energy consumption.

Self-monitoring of the wastewater sewers was conducted, as mandated by an EU regulation.

Soldering workstations have been converted to the employment of lead-free solder, a major step toward implementing the Restriction of Hazardous Substances (RoHS) Directive and avoiding wastes that contain hazardous components.

Our entire waste disposal system was reviewed by an external consultant and evaluated with respect to potential for improvement. The potential improvements will be instituted beginning in 2006.

We constructed a concrete retaining wall to reduce the risk of flooding and thus avoid flood-related water pollution. The investment volume totaled € 40,000.

Sustainability in product development

Environmental design engineering requirements are applied in developing new products. This relates to both the materials that are used, including their recyclability, as well as to such customer-specific environmental aspects as reducing the consumption of the energy needed to operate pumps. In particular, special attention is being paid here to avoiding hazardous materials in electrical and electronic equipment. Even though the products manufactured by Pfeiffer Vacuum are not covered by the German Electrical and Electronic Equipment Act, we are extremely serious about observing the materials prohibited under this legislation.

Our environmental goal for 2006

- To further reduce energy consumption

Measures planned in this connection: Improved insulation and modernization of the heating and ventilation system within the context of maintenance to be performed on a production building.

Job safety

In 2005, a total of 24 job safety audits were conducted, ten of them together with the plant medical service and the Employee Council. In addition, two audits were conducted together with the environmental protection and fire protection coordinators. The Job Safety Committee held a total of four meetings. Our employees are familiarized with all requirements relating to job safety, noise abatement, handling of hazardous materials, accident and fire prevention. Every employee has access to the required EU safety data sheets and standard operating procedures in our quality handbook.

The Company's job safety organization and job safety measures were reviewed in October 2005 in connection with the audits under ISO 9001:2000 and ISO 14001:2004. No deficiencies were found.

The number of reportable on-the-job accidents in 2005 declined from the previous year's level, amounting to only eight (2004: 11). No on-the-job accident was found to have been caused by a technical shortcoming or by the lack of safety equipment.

Our job safety goal for 2006

- To implement the new noise emissions levels beginning in February 2006

Quality

The Company's quality management system was reviewed by an independent certifier in connection with a follow-up audit in October 2005 under ISO 9001:2000. The audit was passed without any variances.

Within the framework of our quality management system, all business processes are continuously scrutinized and enhanced. Nine internal quality audits were conducted in 2005 for this purpose, with no material variances being identified. In addition, Pfeiffer Vacuum was also successfully audited by three customers.

Quality goals are defined and assessed annually, with compliance being measured. Continuous improvement processes are an element of all of the Company's processes, from the development of a product right through to its employment by the customer. Our entire sourcing process was optimized in 2005 – from receiving inspections to vendor evaluations right through to an improved complaint management system.

Within the framework of one project, options for improvement with respect to vendor selection and ongoing determination of quality performance indicators were analyzed and instituted. In a further project, the potential for improvement was studied in connection with new product market launches. This, too, is an example of our holistic approach toward implementing customer-oriented processes.

Improving organizational processes

"Turbo Office" is an important quality improvement project. In a benchmarking process, organizational processes in the administrative departments are critically scrutinized and compared in workshops with those in place at other small and medium enterprises. This project, which was launched in the autumn of 2003, was intensively pursued in 2005. In addition, employees from various departments of the Company were informed about new process analysis methods. As a part of this project, the repair order handling process was analyzed and process improvement measures were jointly developed.

These projects are major steps toward mutual, cross-departmental process optimization and a holistic view of quality.

In 2005, our on-time delivery status was sustained at a consistently high level of 98 %. This, too, documents the success of our ongoing efforts aimed at process improvement, because clearly defined processes are ultimately a major aspect in on-time handling of customer orders.

Our quality goal for 2006

- Reduce warranty claims by at least 20 %

Our People

We are especially serious about intensive, comprehensive training, education and qualifications. Because a company is only as good as its people.

On December 31, 2005, the corporate group employed a total of 691 people. Thus, the number of people in continuing operations is about on the same level as in the previous year (696).

Personnel expenses in the year 2005 totaled € 43.5 million, as opposed to € 41.6 million in 2004.

Workforce

	2005	2004
Total employees worldwide	691	696
Male	570	571
Female	121	125
Employees at corporate headquarters	510	514
Employees at sales subsidiaries	181	182

Dec. 31

Training and qualifications

Good education and training, along with a willingness to engage in ongoing continuing education and training in response to the needs of the market, represent the best prerequisites for secure jobs and sustained business success.

Industrial mechanics are trained for tasks in manufacturing operations in a trainee workshop at the manufacturing facility in Asslar that is equipped with the latest machinery. In addition, we are also training industrial commercial operations specialists and an advertising commercial operations specialist. In 2005, we provided a total of 31 training slots (2004: 29) – a good investment in the future of the Company and its people. Pfeiffer Vacuum is also participating

Juri Wagner, Training & Education · Christopher Schäfer, Training & Education

in the "Studium Plus" work-study educational program under a collaborative effort between the Giessen-Friedberg Technical University and the chamber of industry and commerce. University openings for a total of six business engineering and mechanical engineering students are currently being sponsored. During the year under review, two graduates of this educational program were again able to be offered jobs with our Company.

Working in close collaboration with general and technical universities, new blood for the future is being familiarized with life in a modern industrial enterprise by making jobs available for interns and awarding contracts to postgraduate thesis candidates. In 2005, three postgraduate theses were written at the Company under the coaching of staff from the development department.

Our people view a problem as a challenge

To assure that our people's knowledge is always up to date, continuing education measures are offered by both our in-house staff and external instructors. This included continuing education for our people to enable them to effectively plan and conduct on-site technical training. Two dedicated in-house employees provide technical training for employees and customers. Further employees from Marketing, Development and Service can be called in on an as-needed basis as training course instructors. A broad course curriculum offers training in German and English on new and existing products to all sales and service staff.

The "Turbo Office" project, which was launched in the autumn of 2003, was broadened in 2005 to include further departments. A benchmarking process critically scrutinizes organizational processes and compares them in workshops with those in place at other small and medium enterprises. All employees from the participating departments are involved in the project, and are participating in this competition with a high level of enthusiasm and motivation.

The following overview underscores the high level of education of our people:

Professional and Vocational Qualifications

	2005	2004
Development and Manufacturing		
College and university graduates	65	65
Employees with specialized training	245	252
Employees without specialized training	48	48
Trainees	20	19
Administration, Sales and Marketing		
College and university graduates	113	126
Employees with specialized training	179	166
Employees without specialized training	10	10
Trainees	11	10

Dec. 31

Attractive pay concepts

In 2005, all employees again shared in the Company's success in the form of a pay bonus. A growth-based bonus system provides additional incentive to the staff of the sales organization. Executives at corporate headquarters have a variable income element that is coupled to the achievement of the Company's operating profit target.

Old-age pensions

In Germany, Pfeiffer Vacuum offers its employees various Company old-age pension options: A funded supplemental retirement benefit corporation, direct insurance and a pension fund. By enabling a portion of the employee's income to be earmarked for this purpose, it is possible to build a tax-advantaged supplementary old-age pension that is matched to the individual's needs.

Employees who joined the Company prior to June 1996 are additionally entitled to a Company-funded old-age pension. Since year-end 2003, the Company's pension obligations under agreements relating to the Company-funded old-age pension have been held in an asset management trust in the form of a registered association, Pfeiffer Vacuum Trust e. V. Information relating to the development of the pension trust is contained in the Notes to the Financial Statements on page 124.

Various pension plans that conform to country-specific conditions are in place at the sales subsidiaries.

During the year covered by this report, eight employees took advantage of the opportunity to gradually transition into retirement under a part-time contract for near retirees. This enabled us to offer trainees permanent jobs upon passing their final examination.

The following overview documents the balanced ratio between young and old at the Company.

Age Structure of the Company

	2005		2004	
Under 30	81	(12 %)	86	(12 %)
30 to 50	431	(62 %)	435	(64 %)
Over 50	179	(26 %)	170	(24 %)

Dec. 31

Social responsibility toward the Company and the outside world

Modern workplaces, teamwork and flat hierarchies are what characterize Pfeiffer Vacuum. The Company takes its social responsibility toward its people seriously, meets its disabled-employee quota and is in compliance with official accident prevention and job safety regulations (see also "Environment, Safety and Quality" on page 58). The principles of equitable treatment for all and protection of minors are observed worldwide.

The Company pays employees at its German locations either on the basis of the general collective-bargaining agreement for the metalworking and electrical engineering industries or at higher pay scales, and observes codetermination principles. There is good collaboration between Employee Council and Management.

Effective March 1, 2006, the new single-status payscale agreement (ERA) instituted under the collective bargaining agreement was introduced at corporate Headquarters in Asslar. The ERA is a consistent payscale framework system for blue collar, technical and business white collar employees and eliminates differentiation in wage and salary groups. Moreover, it also provides consistency for the other working conditions stipulated under the collective bargaining agreement. Entitlements stipulated under the collective bargaining agreement are assured on a zero-sum basis. The new single-status payscale agreement will not result in any additional costs.

Pfeiffer Vacuum also lives up to its social responsibility outside the Company. It awards grants to aid the work of facilities for children and the disabled, and also sponsors regional sports clubs. Schools and universities are supported through both cash and non-cash donations.

Protecting nature and life.

Vacuum technology is helping to protect our environment. Environmental studies are conducted using analytical equipment that operates only under vacuum. Lakes, rivers and streams are examined for pollutants. The air, too, can be analyzed and monitored for exhausts and waste gases. Even the air in living rooms and automobiles can be analyzed for harmful substances. Studying volcanic gases aids predicting eruptions. Vacuum technology can also be employed to check whether food packagings give off harmful substances. And the foods, themselves, can be checked for unhealthy ingredients. Medicine also benefits from vacuum technology. New and effective drugs can only be developed with the aid of high-precision analytical equipment. Vacuum creates prerequisites for a healthy future that is worth living!

Management's Discussion and Analysis (MD & A) >>

Management's Discussion and Analysis

Pfeiffer Vacuum more profitable than ever before!

With an operating profit of € 36.8 million and net income of € 22.7 million, we can look back with satisfaction at a successful 2005 fiscal year. This positive development was attributable, first and foremost, to the further optimization of our business processes, to higher sales in our core business "vacuum pumps and components," as well as to a reduction in the losses stemming from our discontinued DVD business.

In the face of a world economic environment that was difficult overall, along with stiff pricing competition in the vacuum industry, we succeeded in increasing sales by € 8.0 million from € 151.5 million to € 159.5 million. The cost-consciousness that exists throughout all areas of the Company, along with optimization of our operating processes, led to an operating profit of € 36.8 million (2004: € 34.6 million). The relative change in operating profit was 6.3 % and sales advanced by 5.3 %, raising our EBIT margin from 22.8 % to 23.1 %.

New orders and orders on hand again developed on a positive note in 2005. At € 162.7 million, new orders were up € 6.3 million over the previous year's level of € 156.4 million. Orders on hand totaling € 29.5 million were up € 3.2 million from € 26.3 million the year before. Overall, this represents a sound point of departure for the 2006 fiscal year.

A decision was made in spring of 2005 to discontinue the DVD line of business. Consequently, DVD business is presented separately in the income statement as a discontinued operation. The comparison periods have been correspondingly adjusted. Since the major share of the impact on profitability stemming from our withdrawal from this line of business had already been reflected in the consolidated financial statements for the year ended December 31, 2004, the after-tax loss in 2005 amounted to € 1.0 million, down significantly from the previous year's level of € 10.2 million.

These developments led to a net income of € 22.7 million and a return on sales of 14.3 %.

Sam Oh, Senior Management Pfeiffer Vacuum Korea
Claus Gerlach, Marketing Communications

Overall Economic Environment

World economy

After a comparatively positive world economic growth rate of 5.0 % in 2004, the year 2005 saw a moderate slowdown in the pace of economic recovery to growth of 4.4 %. This decline was observed on nearly all continents and was attributable, among other things, to high prices for energy and crude materials.

United States

With growth of 3.6 %, the development of the economy in United States in 2005 lagged even more significantly behind overall world economic growth. This was essentially due to higher energy prices, in particular for crude oil, as well as to interest rate hikes on the part of the U.S. Federal Reserve Bank in response to the rising rate of inflation.

Europe

During the year under review, the countries of Eastern Europe, in particular, posted satisfactory growth rates. Overall, however, the development of the economy in Europe was not convincing with growth of 1.7 %. The reason for this was the development of the major economies in Italy, France, the United Kingdom and Germany. With a 0.2 % rise in gross domestic product, economic growth virtually came to a standstill in Italy, while France and the United Kingdom posted somewhat below-average economic development with growth of 1.6 %. Due to high unemployment and rising consumer prices, domestic demand in Germany continued to be weak. Overall, the 0.9 % change in gross domestic product in Germany lagged significantly behind the previous year's level (1.7 %), landing the country in one of the last places within the European rankings.

Asia

The Asian economic region again served as the major engine for global growth in 2005. Leaving out of consideration the Japanese economy, which grew at a rate of 2.6 %, gross domestic product advanced by 7.7 % in this region. With growth of 9.4 %, the People's Republic of China is one of the most important markets.

Vacuum industry

The year 2005 saw a further heightening of competitive pressure in the vacuum industry. This was predominantly attributable to the competitive situation and to weaker overall economic development, especially in the industrialized nations, in which the bulk of our sales are generated.

Michaela Panser, Marketing and Sales

Business in Fiscal 2005

Overview

Net sales in fiscal 2005 totaled € 159.5 million. Following net sales of € 151.5 million the year before, this represents an increase of € 8.0 million or 5.3 %. This shows that in a difficult competitive environment, we succeeded in communicating the outstanding quality of our products to our customers. Again sales were impacted by the weak U.S. dollar, but the negative effect of € 0.1 million is negligible (2004: € 3.3 million).

In 2005, operating profit rose by € 2.2 million, or 6.3 %, from its 2004 level of € 34.6 million to € 36.8 million. The EBIT margin amounted to 23.1 % (2004: 22.8 %). The further optimization of our cost structures benefited the consolidated groups profitability. By contrast, the € 1.9 million increase in personnel expenses to € 43.5 million adversely affected the development of our operating profit.

Including financial income of € 2.5 million (2004: € 1.8 million), income before taxes totaled € 39.3 million, as opposed to € 36.4 million the year before. Tax expense from operative business amounted to € 15.0 million in 2005 (2004: € 14.6 million). Presented for the first time in fiscal 2005, minority interests amounted to € 0.6 million, so that income from continuing operations after taxes totaled € 23.7 million. Given the previous year's level of € 21.8 million, this represents an improvement of € 1.9 million or 8.8 %.

Losses from our discontinued DVD operations totaled € 1.0 million after taxes in 2005 (2004: € 10.2 million). All in all, we earned net income of € 22.7 million in 2005. This represents an increase of € 11.1 million or 95.7 %.

Sales

Presented below are net sales by segment, by region and by product for the year 2005. It should be noted with respect to net sales by segment that the sales shown in this presentation were allocated on the basis of the registered office of the company that invoiced the sales. The segment-based presentation thus shows net sales by subsidiaries. Net sales by region, on the other hand, include all sales in a given region, regardless of which subsidiary within the Pfeiffer Vacuum group actually invoiced the sales. Net sales by segment and by region can thus differ from one another to a greater or lesser extent. Net sales in the Asian segment, for example, differ from those shown for the Asian region, as the Asian segment includes only the sales of our two Asian subsidiaries in India and Korea. The presentation for the Asian region, in contrast, additionally includes sales generated directly with Asian customers by the German company. In net sales by segment, the sales of the German company generated through direct deliveries to agents and/or customers outside Germany are significantly higher than German sales by region. Net sales in the U.S.A. region and the U.S.A. segment, on the other hand, are nearly identical, because virtually all sales in this region are handled through our American subsidiary.

Sales by segment

The total net sales of € 159.5 million generated in 2005 break down as follows among the segments:

Sales by Segment 2001 – 2005 (in € millions)

	Germany	Europe*	United States	Asia	Total
2001	72.3	52.0	44.2	1.6	170.1
2002	68.0	43.9	35.8	3.0	150.7
2003	60.5	42.5	32.7	2.9	138.6
2004	67.6	46.4	33.2	4.3	151.5
2005	**70.2**	**49.7**	**36.3**	**3.3**	**159.5**

* Excluding Germany

The table shows that in fiscal 2005 sales growth was basically achieved in all segments. Only in the Asian segment did sales decline by € –1.0 million. The strongest change in absolute terms, € +3.3 million, was recorded in the segment of Europe (excluding Germany). The United States accounted for the highest percentage increase (+9.1 %).

Sales by region

To provide additional information, the following table structures our total sales in the amount of € 159.5 million by region.

Sales by Region 2001 – 2005 (in € millions)

	Europe*	Germany	United States	Asia	Other	Total
2001	56.6	48.0	44.8	19.4	1.3	170.1
2002	50.9	40.3	35.8	22.4	1.3	150.7
2003	48.3	34.9	32.8	21.7	0.9	138.6
2004	49.3	42.3	33.1	25.7	1.1	151.5
2005	**51.1**	**42.6**	**36.2**	**27.9**	**1.7**	**159.5**

* Excluding Germany

Europe (excluding Germany) In Europe, sales totaled € 51.1 million, up € 1.8 million, or 3.6 %, from € 49.3 million the year before. On a regional level, Europe is still our largest market. The development was attributable, in particular, to the increase of sales in France (€ 6.5 million, € +1.8 million), in Sweden (€ 5.9 million, € +1.1 million) and in the Netherlands (€ 7.7 million, € +1.0 million). Sales in Switzerland and Belgium, on the other hand, declined by € –1.7 million and € –0.4 million, respectively. Overall, the development of sales in Europe outpaced the industry average, which also improved our competitive position.

Germany With sales in Germany advancing by € 0.3 million, or 0.9 %, to € 42.6, growth lagged behind the development in Europe. Against the backdrop of difficult competitive conditions, however, this increase was just satisfactory. Accounting for 26.7 % of total sales, Germany continues to be Pfeiffer Vacuum's largest market at the country level.

United States In the United States, sales rose by € 3.1 million from € 33.1 million to € 36.2 million. The U.S. dollar gained strength in 2005 and had a negative impact of only € 0.1 million on the development of sales. Expressed in local currency, sales of the U.S. distribution company advanced by US$ 3.9 million, or 9.3 %, from US$ 41.4 million to US$ 45.3 million. Accounting for 22.7 % of total sales, the United States continues to rank second.

Asia and other regions Sales in Asia advanced by € 2.2 million to € 27.9 million in 2005, representing a growth rate of 8.9 % (2004: 18.4 %). The percentage of consolidated sales accounted for by Asia rose from 16.9 % in 2004 to 17.5 %. With sales of € 15.7 million (2004: € 12.9 million), Japan continues to be our most important submarket within the Asian region. Sales of € 4.3 million were generated in Korea, as opposed to € 5.1 million in 2004. However this € 0.8 million decline was offset by growth in Japan (€ +2.8 million) and China (€ +0.2 million). The sales generated in other regions (€ 1.7 million, 2004: € 1.1 million) accounted for 1.1 % of total sales (2004: 0.7 %).

Sales by product

Sales of turbopumps advanced by € 4.9 million from € 59.5 million to € 64.4 million. Accounting for 40.4 % of total sales (2004: 39.2 %), the turbopump continues to be the product that generates the highest percentage of our total sales. The higher sales during under review stemmed, in particular, from our ability to win major accounts involving high order volumes. Sales of measurement and analysis equipment and vacuum components declined moderately from € 42.5 million to € 41.9 million. Accounting for 26.3 % of total sales (2004: 28.1 %) this product group again ranked second as it did the year before. Service operations generated sales of € 23.5 million (2004: € 25.0 million). With sales growth of € 3.1 million, or 15.4 %, from € 19.7 million to € 22.8 million, backing pumps ranked fourth (accounting for 14.3 % of sales, 2004: 13.0 %). The backing pump portfolio includes rotary vane, Roots and dry pumps. Orders from the analytical and industrial segments made a major contribution to this sales growth.

Systems business produced sales of € 6.9 million in fiscal 2005. Adjusted for the sales generated by the discontinued DVD business, sales the year before totaled € 4.8 million, resulting in an increase of € 2.1 million, or 44.7 %, here. Various major projects accepted during the year under review were the crucial factor in this positive development. Systems business accounted for 4.3 % of total sales (2004: 3.2 %).

Sales by Product 2001 – 2005 (in € millions)

	Turbopumps	Measurement/ Analysis Equipment, Components	Service	Backing Pumps	Systems	Total
2001	64.0	48.0	26.8	22.3	9.0	170.1
2002	56.7	41.7	26.1	19.3	6.9	150.7
2003	53.6	35.2	25.9	18.0	5.9	138.6
2004	59.5	42.5	25.0	19.7	4.8	151.5
2005	**64.4**	**41.9**	**23.5**	**22.8**	**6.9**	**159.5**

At 2.5 %, the percentage of sales accounted for by our largest customer is below the 5 % mark. Pfeiffer Vacuum is thus not dependent upon any one single large customer.

New orders and orders on hand

New orders during the period covered by this review totaled € 162.7 million, up € 6.3 million, or 4.0 %, from the previous year's level of € 156.4 million. € 9.5 million of this increase stemmed essentially from the higher volume of new orders for turbopumps, while € 2.7 million were attributable to a higher level of orders for backing pumps. By € 1.4 million, on the other hand, new orders in service business were down. This strong rise, especially in turbopumps, resulted predominantly from major orders received from the analytical and coating markets.

At year-end 2005, the book-to-bill ratio – the quotient between new orders and sales – amounted to 1.02 (2004: 1.03). This means that the value of new orders exceeded sales, which illustrates our good point of departure for the year 2006. Orders on hand totaled € 29.5 million and were up significantly from the previous year's level of € 26.3 million.

Earnings development

Cost of sales and gross profit

Cost of sales rose by 6.3 % from € 79.0 million to € 84.0 million. This increase was predominantly attributable to our higher sales, as cost of sales basically paralleled the development of net sales. Furthermore, higher labor costs in the German production plant led to cost of sales rising stronger than net sales. Gross profit rose by € 3.0 million, or 4.1 %, from the year before. Gross margin, the relationship between gross profit and net sales, declined from 47.9 % in 2004 to 47.3 % in fiscal 2005.

Gross Profit and Gross Margin 2001 – 2005

	Gross Profit (in € millions)	Gross Margin (in %)
2001	74.3	43.7
2002	69.0	45.8
2003	63.2	45.6
2004	72.5	47.9
2005	**75.5**	**47.3**

Selling, general and administrative costs

Totaling € 32.3 million, selling, general and administrative expenses rose by € 0.8 million, or 2.5 %, over the year 2004 (€ 31.5 million). The reason for the increase consisted predominantly of higher personnel expense contained in this items. Selling, general and administrative expenses represented 20.2 % of sales (2004: 20.8 %).

Research & development costs

Research & development expenses again totaled € 6.4 million for the 2005 fiscal year. As a result of higher sales, the research & development cost ratio of 4.0 % was down from the year before (4.2 %).

Operating profit

The EBIT margin of 23.1 % for the year covered by this review was again 0.3 percentage points higher than in 2004. A multiple-year comparison also shows that the implemented cost reduction measures have produced a steadily rising EBIT margin. Over the course of the past five years, a total increase of 6.5 percentage points has been achieved.

Operating Profit and EBIT Margin 2001 – 2005

	Operating Profit (in € millions)	EBIT Margin (in %)
2001	28.2	16.6
2002	26.0	17.2
2003	24.3	17.6
2004	34.6	22.8
2005	**36.8**	**23.1**

Florian Bepler, Studium Plus · Richard Hartig, Customer Service · Andrea Mayfarth, Customer Service

Financial income

Financial income for the year 2005 totaled € 2.5 million (2004: € 1.8 million). This item consists of interest income in the amount of € 1.5 million, interest expenses of € 0.2 million and exchange rate gains of € 1.2 million. The € 0.7 million rise in financial income over the year before was predominantly attributable to the higher exchange rate gain. This was primarily due to the development of the U.S. dollar.

Before/After-Tax Income from Continuing Operations 2001 – 2005 (in € millions)

2001	29.4	18.9
2002	29.6	20.1
2003	28.0	14.7
2004	36.4	21.8
2005	**39.3**	**23.7**

Income taxes

Income taxes attributable to continuing operations amounted to € 15.0 million in fiscal 2005. This represents an increase of € 0.4 million over the year before (€ 14.6 million), stemming predominantly from the higher level of before-tax income. At 38.1 %, the tax rate decreased slightly from the year 2004 (40.1 %).

Minority interests

Minority interests, an item that is being presented for the first time for this fiscal year due to its materiality, amounted to € 0.6 million. € 0.5 million of this total was attributable to prior years and € 0.1 million to the year 2005. This item relates to the subsidiaries in India, Korea and Switzerland. Further information regarding the holdings of other shareholders can be found under Note 18 to the consolidated financial statements on page 134.

Losses from discontinued operations

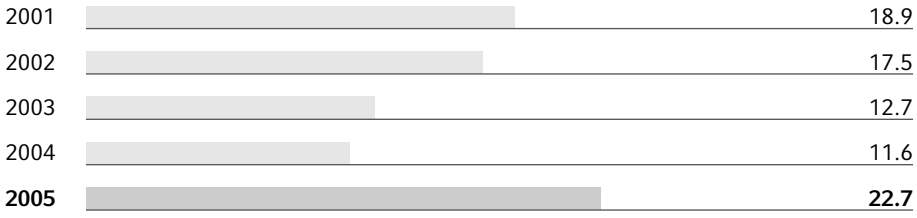
Losses from discontinued operations include the negative profitability contributions from the discontinued DVD line of business, which totaled € 1.0 million after taxes for the fiscal year (2004: € 10.2 million). In 2005, € 0.9 million of the losses were attributable to current losses and € 0.1 million to losses on disposal. Only current losses had been presented the year before.

After-Tax Losses from Discontinued Operations 2001 – 2005 (in € millions)

Net income

Pfeiffer Vacuum earned total net income of € 22.7 million in 2005. This represents an increase of € 11.1 million, or 95.7 %, over the year before (€ 11.6 million).

Net Income 2001 – 2005 (in € millions)



Financial position

The balance sheet total of the consolidated Pfeiffer Vacuum group rose from € 125.2 million to € 138.8 million. This represents an increase of € 13.6 million or 10.9 %. On the assets side, this development resulted essentially from the increase in cash and cash equivalents from € 45.0 million to € 61.7 million (€ +16.7 million), the € 5.0 million increase in long-term investment securities to € 6.0 million and the sales-based € 3.5 million increase in trade accounts receivable to € 22.5 million. On the other hand, short-term investment securities decreased by € 6.0 million to € 3.0 million, with redemptions received and lower purchases playing a crucial role in this development. Due to tax refunds, other accounts receivable declined by € 2.8 million to € 1.3 million. With respect to the development of cash and cash equivalents, amounting to € 61.7 million and accounting for 44.4 % of the balance sheet total (2004: 35.9 %), reference is made to the comments on cash flow contained in the following section. Shareholders' equity rose by € 13.3 million to € 112.6 million. A distinction must be made in this connection between the development of retained earnings and accumulated other comprehensive income (loss). The net result of the dividend payment in June 2005 in the amount of € 7.8 million and our net income of € 22.7 million was a € 14.9 million increase in retained earnings. In the case of accumulated other comprehensive income (loss), the accounting for the minimum pension liability, which did not have any impact on income, reduced shareholders' equity by € 3.8 million. At 81.1 %, our equity ratio again rose, in spite of the above-described impacting effects (2004: 79.3 %). The minimum pension liability was also the reason for the significant € 3.0 million rise in accrued pension to € 4.4 million. In addition, the € 1.8 million decline in income tax liabilities to € 3.9 million as a result of income tax payments made also impacted the balance sheet total on the liabilities side. Thanks to its above-average shareholders' equity and high liquidity, the company continues to not be dependent upon bank debt.

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

Liquidity and cash flow

Cash flow from operating activities amounted to € 24.5 million (2004: € 26.3 million). In particular, this decrease of € 1.8 million or 6.7 % was attributable predominantly to the sales-based increase in trade accounts receivable (€ +2.8 million). Additionally, totaling € 13.9 million, cash paid for income taxes increased significantly from the year before (€ 9.7 million). On the other hand, declines in the year 2004's operating cash flow stemming from the increase in inventories were not recorded in 2005.

Net cash used in connection with investing activities in 2005 included capital investments in the amount of € 2.5 million (2004: € 2.1 million) and purchases of investment securities in the amount of € 8.0 million (2004: € 1.0 million). This development was offset by net cash provided by redemptions of investment securities in the amount of € 9.0 million, as well as net cash provided by proceeds from disposals of fixed assets (€ 0.1 million, 2004: € 0.2 million), resulting in total net cash used in investing activities of € 1.2 million (2004: Net cash used in investing activities of € 4.2 million).

As in the year before, the dividend payment was the main factor that influenced cash flow from investing activities during the period covered by this report. The dividend payment in 2005 for the 2004 fiscal year amounted to € 7.8 million; the year before, we had paid a total of € 6.1 million to our shareholders. The redemption of convertible bonds additionally led to a cash outflow of € 0.1 million.

In 2005, cash and cash equivalents rose by a total of € 16.7 million, amounting to € 61.7 million on December 31, 2005 (2004: € 45.0 million). We thus continue to be in a position to generate sufficient cash from operating activities to finance our day-to-day business as well as any required investment projects. In addition, the corporate group also enjoys access to committed but unused lines of credit having a total volume of € 10.8 million.

Within the framework of our financial management, free liquidity was invested in interest-bearing vehicles. A cash management system is in place between the German companies within the corporate group in order to bundle liquidity. Taking their individual cash needs into consideration, the parent corporation regularly concentrates the free liquidity at the non-German group companies. Conservative and largely short-term investment vehicles, such as money-market or time deposits at banks, dominate in connection with financial investments. In the case of securities, only fixed- or variable-rate bond issues from debtors with high credit ratings are acquired. These are typically bond issues from banks or high-grade industrial bond issues. We do not enter into speculative transactions.

Purchasing

Developments in the year 2004 were followed by a further rise in international raw materials prices during the year under review. One major reason for this consisted of steadily rising demand, in particular on the part of the booming economies in Asia, first and foremost China. However price hikes for steel and its alloying raw materials, as well as for aluminum and copper, did not have the same impact on profitability at Pfeiffer Vacuum as it did in other sectors. Because in contrast to industries that are characterized by a high level of raw materials inputs, we employ semifinished goods (raw materials that have already been partially processed) nearly exclusively in manufacturing our products. Since the production of these goods already adds value to the raw materials – only a minor portion of the price we pay is attributable to the actual cost of the raw material itself –, only a portion of rising raw materials prices impacts our costs. In addition, working in collaboration with our key vendors, we also optimize their value added processes in order to assure an optimal supply of inputs in terms of costs and lead times. Moreover, electronic handling of purchasing processes is a further major element in our internal process optimization.

Human resources and social aspects

On December 31, 2005, our workforce (continuing operations) totaled 691 people. This represents a reduction of five people or 0.7 %. On annual average, our workforce amounted to 691 people worldwide (2004: 697). In the discontinued operations in connection with DVD business six people were employed on annual average in 2005 (2004: 53) and none at year end (2004: 49).

Workforce by Segment 2001 – 2005

	Germany	Europe*	United States	Asia	Total
2001	585	114	68	26	793
2002	558	106	65	25	754
2003	520	102	58	25	705
2004	514	98	58	26	696
2005	**510**	**96**	**59**	**26**	**691**

* Excluding Germany

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Capital expenditures and financing

With the objective of securing the Company's future long term, capital expenditures were again made during the period under review. € 1.3 million of our total capital expenditures of € 2.5 million (2004: € 2.1 million) was invested in equipment and machinery.

Capital Expenditures 2001 – 2005 (in € millions)

2001	9.1*
2002	1.7
2003	1.5
2004	2.1
2005	**2.5**

* New building

With an equity ratio of 81.1 % (2004: 79.3 %), our Company is financed virtually entirely through shareholders' equity in the long-term segment. The current assets ratio, the quotient between current assets and current liabilities, amounts to 502 % (2004: 401 %) and continues to symbolize our sound financing concept and our high credit rating.

Current Assets Ratio 2001 – 2005 (in %)

2001	435
2002	598
2003	341
2004	401
2005	**502**

Research & Development

If you're not moving forward, you're moving backward. This saying applies all the more to us, as we operate in a market that is continuously evolving. And this necessitates the ongoing development of new and evolved products in response to changing customer needs. Pfeiffer Vacuum's sustained economic success proves that we are keeping pace with technology developments. Research & development expenses in 2005 totaled € 6.4 million, thus reaching the previous year's level. This underscores how seriously we take this work and its importance for the Company's development. In addition to the numerous new products and product versions that we brought to market, six patents were issued on pending applications and eleven further patent applications were filed, thus laying the groundwork for our future sales revenues.

Environment

Our environmental management system was reviewed within the scope of a follow-up audit in October 2005. The certificate under ISO 14001:2004 was issued without any variances. Further information is contained in the chapter entitled "Environment, Safety and Quality" on page 58.

General comments on the course of business

Overall, we are satisfied with the development of our business in fiscal 2005. In addition to a significant reduction in our losses from discontinued operations, our improved operating profit and EBIT margin also contributed to Pfeiffer Vacuum's economic success. Efforts on the part of all of our people throughout the world to again improve on the previous year's good results were successful. A look at our balance sheet also shows a rock-solid company. An equity ratio that far exceeds the average, as well as sufficient liquid assets, symbolize our sustained economic success, of which we are justly proud.

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.

During the year under review, we conducted an internal audit in order to study the processes, systems and other aspects of our major group companies, which serve as the framework for our monthly, quarterly and annual reporting. Although no material findings were made with respect to the quality of the reported numbers, opportunities for enhancing efficiency were identified, some of which have already been implemented.

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.

Tommy Ekblad, Service Pfeiffer Vacuum Scandinavia

Pfeiffer Vacuum has long been highly successful in winning new customers from a variety of industries in order to avoid dependencies. We respond to negative changes in the economy through measures aimed at adjusting capacities as well as swift cost reduction. In addition, we are constantly analyzing 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 2005, we spent a total of € 6.4 million on research & development (2004: € 6.4 million). This correlates to 4.0 % of sales – as opposed to 4.2 % 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. We first received certification under ISO 9001:2000 in the year 1995, which has since been sustained without interruption.

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 operations and the high percentage of export business that this involves, we are subject to a foreign exchange risk. With the United States accounting for € 36.2 million, or 22.7 %, 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. Aside from the U.S. dollar, there are no material exchange rate risks, as the vast majority of our invoices are issued in euros.

Financial and liquidity risks

In what continues to be a tense overall economic situation, financial risks result, in particular, from the insolvency of customers. 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 our qualified employees and are threatened by the risk of losing them.

Training and educating young, qualified employees serves to minimize the strategic risk. To minimize the operative risk, we provide continuing training and education for our employees and support their self-direction in order to create incentives and foster the ideas of our people. We view an attrition rate of less than 1 %, which is well below the industry average, as demonstrating our Company's appeal.

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. No legal disputes are currently pending whose outcome could have a material impact on the Company's earnings or financial position.

General comments on the risk management system

We are of the opinion that the risk management system that has been established 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.

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.

Margot Fiegler, Purchasing · Markus Scherer, Service

Early 2006 and Outlook

Early 2006

Since the beginning of the 2006 fiscal year, there have not been any significant changes in the Company's position or the industry environment.

Outlook

With anticipated growth of 4.3 % for the year 2006, leading economic experts are predicting that world economic growth will roughly parallel the 2005 level. Structural problems in many industrialized nations, coupled with rising interest rates, will reduce growth potential overall. The American and Asian economies will continue to have a major influence on the development of the world economy. In Germany, gross domestic product is expected to grow by 1.7 %.

We estimate that sales growth in the vacuum industry in 2006 will be the same as in the past fiscal year. Given our orders on hand and rising customer demand, we anticipate that our sales will grow faster than the market in 2006. In greater detail: We expect to see disproportionate growth in the analytical and coating markets, as opposed to moderate growth in semiconductor, industrial applications as well as chemical and process technology. By rigorously focusing on key markets, we will be able to tap into further sales potential and intensify existing customer relationships.

In regional terms, sales are expected to improve in Europe and the United States, in particular. Because of the breathtaking pace of development of the high-tech industry in the People's Republic of China, this market will be taking on increasing significance for us, as well. A representation office was opened at the end of 2005 in Shanghai with the objective of covering this growing market potential. We expect to see this commitment translate into rising sales in the years to come, and plan to expand this sales office to keep pace with the development of sales and profitability. We additionally see further market potential in Russia and Eastern Europe. These markets will be covered by the sales company in Austria.

It can fundamentally be assumed that our operating expenses will develop at the same rate as sales. As a result of the lower discount rates that were applied in calculating pension obligations in 2005, there will be a disproportionate rise in net pension expense. On the other hand, we do not anticipate that our profitability will be further impacted in 2006 by our discontinued operations. It is not currently possible to conclusively assess how the prices of energy and raw materials will develop, nor how this will affect our profitability. As already indicated, however, only a portion of potential price increases will actually impact our costs, and this may be offset through further measures relating to collaboration with our vendors if necessary.

We view research & development costs as an investment in our future. In the coming years, we will continue to pursue our objective of remaining competitive and expanding our market share. Because the ability to identify market needs early on and to provide customer-driven new developments are fundamental prerequisites, we will continue to maintain a high ratio of research & development expenditures.

Involving a distribution volume of € 11.7 million, the proposal by the Management and Supervisory Boards relating to the appropriation of retained earnings will also call for our shareholders to again participate disproportionately in the Company's success in fiscal 2005. Under this proposed appropriation of retained earnings, the dividend will be € 1.35 per share of no-par stock, subject to the approval of Shareholders Meeting (2004: € 0.90). 51.6 % of the Company's net income of € 22.7 million will thus be distributed to our shareholders.

Further optimization of our business processes will continue to remain one of our highest-priority corporate objectives in the future. Expenditures for necessary investments and reorganizational measures will be able to be made from the liquidity generated by current business operations or from available cash and cash equivalents. Debt capital will not be required for this purpose.

As a corporation that is also publicly traded in the United States, we will be required to change over our accounting to International Financial Reporting Standards (IFRS) by the year 2007, at the latest. Our internal planning calls for this changeover to be effected one year earlier, enabling us to draw up Consolidated Financial Statements under IFRS for the fiscal year ending December 31, 2006. We do not anticipate that the changes in the accounting and valuation rules will have any material impact on our profitability.

As a result of our stock exchange listing in the United States, we will be required to satisfy the requirements of the Sarbanes Oxley Act (SOA) with respect to the establishment of a comprehensive internal controlling system by no later than 2006. We view the implementation of the SOA as an additional opportunity for optimizing our internal business processes while simultaneously conforming to these legal requirements. The institution of the requirements under the SOA will be an element of the audit of our 2006 annual financial statements. Given the present and expected development of this project in 2006, we anticipate that we will receive an unqualified opinion.

The statements contained in this outlook are based upon assumptions relating to the development of both the overall economy and the industry. Actual results might differ materially from the Company's expectations regarding anticipated developments should the assumptions upon which the statements are based subsequently prove to be incorrect.

In the future, we will continue to do everything in our power to show our customers, shareholders and employees that we are an innovative, market-driven and profitable company that offers a pleasant work environment and secure jobs.

Fostering good health.

In the field of medical technology and pharmaceuticals, vacuum technology enables even trace percentages of specific substances to be analyzed and evidenced. These analyses are performed with electron microscopes and mass spectrometers that would not be able to operate without vacuum. Research laboratories depend upon Pfeiffer Vacuum's quality and reliability. Accelerators used in cancer therapy incorporate cutting-edge vacuum technology. In one forward-looking pilot project, tumors of the head that were unable to be treated by conventional methods were successfully irradiated with accelerated carbon ions. Radiation and nuclear spin tomography equipment also operates under vacuum.

Consolidated Financial Statements >>

Balance Sheets

K €	Note	December 31, 2005	2004
Assets			
Cash and cash equivalents		61,651	44,986
Trade accounts receivable	1	22,481	18,967
Other accounts receivable	2	1,259	4,056
Inventories	3	13,747	13,954
Investment securities	5	3,000	9,000
Prepaid expenses		872	541
Deferred tax assets	8	1,124	774
Other current assets		334	564
Assets from discontinued operations	17	–	1,862
Total current assets		**104,468**	94,704
Intangible assets	4, 13	487	491
Property, plant and equipment	4, 13	22,394	23,225
Investment securities	5	6,000	1,002
Prepaid pension cost	10	–	2,817
Deferred tax assets	8	4,563	1,985
Other assets		912	1,009
Total non-current assets		**34,356**	30,529
Total assets		**138,824**	125,233
Liabilities and shareholders' equity			
Trade accounts payable		3,184	2,965
Accrued liabilities	7	9,640	9,519
Income tax liabilities	8	3,938	5,720
Customer deposits		1,375	1,911
Other payables		2,659	2,328
Liabilities from discontinued operations	17	–	1,186
Total current liabilities		**20,796**	23,629
Convertible bonds	9	461	794
Accrued pension	10	4,382	1,455
Minority interests	18	554	–
Total non-current liabilities		**5,397**	2,249
Share capital		22,504	22,504
Additional paid-in-capital		2,821	2,821
Retained earnings		94,183	79,256
Accumulated other comprehensive loss		–4,439	–2,788
Treasury stock, at cost		–2,438	–2,438
Total shareholders' equity	11	**112,631**	99,355
Total liabilities and shareholders' equity		**138,824**	125,233

Statements of Income

K €	Note	2005	2004	2003
Net sales	13	159,517	151,512	138,590
Cost of sales		–84,012	–79,010	–75,393
Gross profit		**75,505**	72,502	63,197
Selling and marketing expenses		–19,877	–18,973	–20,394
General and administrative expenses		–12,408	–12,524	–12,153
Research and development expenses		–6,432	–6,387	–6,301
Operating profit	13	**36,788**	34,618	24,349
Interest expense		–156	–83	–246
Interest income		1,496	1,247	1,803
Foreign exchange gain		1,209	665	2,124
Income before income taxes		**39,337**	36,447	28,030
Current taxes	8	–14,538	–13,596	–14,000
Deferred taxes	8	–433	–1,037	675
Minority interests	18	–624	–	–
Net income from continuing operations		**23,742**	21,814	14,705
Loss from discontinued operations, net of tax	17	–856	–10,188	–1,959
Loss on disposals from discontinued operations, net of tax	17	–138	–	–
Net income		**22,748**	11,626	12,746
Earnings per share (in €)	15			
From continuing operations, basic/diluted		2.73	2.51	1.68
From discontiued operations, basic/diluted		–0.11	–1.17	–0.22
Total		**2.62**	1.34	1.46

Statements of Shareholders' Equity

K €	Note	2005	2004	2003
Shareholders' equity at January 1		99,355	95,037	92,508
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		79,256	73,713	65,870
Net income		22,748	11,626	12,746
Dividends paid		–7,821	–6,083	–4,903
Balance at December 31		94,183	79,256	73,713
Minimum pension liability	10, 11			
Balance at January 1		–164	–64	–656
Components of other comprehensive income/loss		–3,592	–100	592
Balance at December 31		–3,756	–164	–64
Cumulative translation adjustment	11			
Balance at January 1		–2,814	–2,049	1,560
Components of other comprehensive income/loss		2,327	–765	–3,609
Balance at December 31		–487	–2,814	–2,049
Unrealized gain/loss on hedges	11, 14			
Balance at January 1		190	550	409
Components of other comprehensive income/loss		–386	–360	141
Balance at December 31		–196	190	550
Treasury stock	11			
Balance at January 1		–2,438	–2,438	–
Additions		–	–	–2,438
Balance at December 31		–2,438	–2,438	–2,438
Shareholders' equity at December 31		**112,631**	99,355	95,037

Statements of Cash flow

K €	**2005**	2004	2003
Net income from continuing operations	23,742	21,814	14,705
Depreciation and amortization	3,202	3,236	3,811
Loss on goodwill impairment	–	1,037	–
Change in deferred taxes	433	1,037	–675
Provision for doubtful accounts	104	–585	214
Other non-cash income and expenses	564	7	347
Changes in net cash from discontinued operations	–504	–580	–4,325
Effects of changes in operating assets and liabilities:			
Inventories	627	–2,211	1,868
Prepaid pension cost pension trust	–	2	–35,955
Receivables and other assets	–1,249	1,655	–2,070
Accrued pension liabilities	–108	356	4,482
Accrued liabilities, including income tax liabilities	–1,845	196	4,250
Payables, other liabilities	–423	347	–97
Net cash provided by (used in) operating activities	**24,543**	26,311	–13,445
Proceeds from disposals of fixed assets	134	161	165
Proceeds from disposals of discontinued operations	171	–	–
Capital expenditures from continuing operations	–2,470	–2,092	–1,491
Capital expenditures from discontinued operations	–	–1,308	–426
Purchase of investment securities	–7,998	–1,002	–9,000
Redemptions of investment securities	9,000	–	–
Net cash used in investing activities	**–1,163**	–4,241	–10,752
Dividend payment	–7,821	–6,083	–4,903
Redemptions of borrowings	–	–	–9,037
Redemptions of convertible bonds	–77	–	–12
Purchase of treasury stock	–	–	–2,438
Net cash used in investing activities	**–7,898**	–6,083	–16,390
Effect of foreign exchange rate changes on cash and cash equivalents	1,183	–432	–2,244
Net increase (decrease) in cash and cash equivalents	**16,665**	15,555	–42,831
Cash and cash equivalents at beginning of year	44,986	29,431	72,262
Cash and cash equivalents at end of year	**61,651**	44,986	29,431
Convertible bonds and employee loans (non-cash transactions)	–256	–51	–154
Cash paid for interest	153	79	170
Cash paid for taxes	13,898	9,663	6,719

Schedule of Fixed Assets

	Acquisition or manufacturing cost				
K €	Balance at Jan. 1, 05	Currency change	Additions	Disposals	Balance Dec. 31, 05
Patents, licenses, trademarks, and similar rights and assets, including licenses for such rights and assets	2,657	36	276	24	2,945
Goodwill	1,227	–	–	–	1,227
Intangible assets – minimum pension liability	220	–	3	69	154
Intangible assets	**4,104**	**36**	**279**	**93**	**4,326**
Land, leasehold improvements and buildings including buildings on land owned by others	30,597	6	966	–	31,569
Other equipment, factory and office equipment	15,349	194	986	930	15,599
Technical equipment and machinery	23,760	18	242	817	23,203
Property, plant and equipment	**69,706**	**218**	**2,194**	**1,747**	**70,371**
Investment securities	**1,006**	**–**	**4,998**	**–**	**6,004**

Depreciation/Amortization					Net book value	
Balance at Jan. 1, 05	Currency change	Additions	Disposals	Balance Dec. 31, 05	Dec. 31, 05	Dec. 31, 04
2,386	36	214	24	2,612	333	271
1,227	–	–	–	1,227	–	–
–	–	–	–	–	154	220
3,613	**36**	**214**	**24**	**3,839**	**487**	**491**
14,587	4	907	–	15,498	16,071	16,010
12,081	174	1,013	867	12,401	3,198	3,268
19,813	14	1,068	817	20,078	3,125	3,947
46,481	**192**	**2,988**	**1,684**	**47,977**	**22,394**	**23,225**
4	**–**	**–**	**–**	**4**	**6,000**	**1,002**

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 turbopumps, 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 digital versatile discs 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).

Due to its listing on the New York Stock Exchange (NYSE) section 292a of the German Commercial Code ("HGB") in its superseded version continues to be applicable for the Company. This section obviates the requirement to prepare consolidated financial statements according to International Financial Reporting Standards (IFRS) if consolidated financial statements are prepared according to other generally accepted international accounting standards. U.S. GAAP is one of the other generally accepted international accounting standards.

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

Consolidated Companies and Principles of Consolidation

All companies which Pfeiffer Vacuum 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, two German (2004: 2) and twelve foreign subsidiaries (2004: 12) are fully consolidated in the Company's consolidated financial statements.

Pfeiffer Vacuum Group:

Subsidiaries	Location	Holdings	Share-holders' Equity*	Net income Loss*	Net sales*
		%	K €	K €	K €
Pfeiffer Vacuum Technology AG	D-Asslar				
Pfeiffer Vacuum GmbH	D-Asslar	100.0	60,655**	28,209**	119,849
Pfeiffer Vacuum Austria GmbH	A-Vienna	100.0	1,049	430	8,695
Pfeiffer Vacuum (Schweiz) AG	CH-Zurich	99.4	1,611	681	7,153
Pfeiffer Vacuum Systems GmbH i. L.	D-Asslar	100.0	–	–2,381**	439
Pfeiffer Vacuum France SAS	F-Buc	100.0	1,295	244	6,555
Pfeiffer Vacuum Ltd.	GB-Newport	100.0	1,214	401	5,867
Pfeiffer Vacuum Nederland B. V.	NL-De Meern	100.0	2,201	435	7,545
Pfeiffer Vacuum Scandinavia AB	S-Upplands-Väsby	100.0	1,303	125	5,899
Pfeiffer Vacuum Inc.	USA-Nashua	100.0	15,280	2,021	36,366
Pfeiffer Vacuum Holding B. V.	NL-De Meern	100.0	2,247	818	–
Pfeiffer Vaccum Belgium N. V.	B-Temse	100.0	1,093	159	3,090
Pfeiffer Vacuum Italia S. p. A	I-Rho	100.0	1,903	137	4,975
Pfeiffer Vacuum (India) Ltd.	IND-Secunderabad	73.0	560	117	870
Pfeiffer Vacuum Korea Ltd.	KR-Yonin City, Kyungki-Do	75.5	1,678	311	3,516

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

** Before profit or loss transfer

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

Minority interest Prior to 2005, the Company did not separately disclose the interests of minority shareholders of the consolidated subsidiaries Pfeiffer Vacuum (Schweiz) AG, Pfeiffer Vacuum Korea Ltd. and Pfeiffer Vacuum (India) Ltd. The minority ownership in these entities represented 0.6 %, 24.5 % and 27.0 %, for each of the years ended December 31, 2005, 2004 and 2003, respectively. Due to an increase in the volume of business at these subsidiaries, the cumulative interests of these minority shareholders have now been separately recorded and disclosed. Please refer to Note 18 for further information.

Use of Estimates The process of preparing financial statements requires the use of estimates on the part of Management. The estimates used by Management are based upon the Company's historical experiences combined with Management's understanding of current facts and circumstances. Certain of the Company's accounting policies are considered critical, as they are both important to the portrayal of the Company's financial condition and results and require significant or complex judgment on the part of Management. 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.

Accounting and Valuation Methods

Revenue Recognition Revenue from 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.

Service revenues are recognized when the underlying services are performed. They include invoiced working hours of service personnel, spare parts and replacement products.

Cost of Sales Cost of sales for products and cost of sales for services include all expenses that are related to the (sold) product or service in a direct or indirect manner, for example, material consumption (including inbound freight charges), production related wages and salaries, purchasing and receiving costs, inspection costs, warehousing costs and certain service costs. Inventory excess and obsolescence charges are also recorded in cost of sales as well as warranty related expenses. Warranty costs are recorded in the period in which the related product revenue is recognized. Management's estimates are primarily based upon an assessment of specific exposure and historical experience by product type.

Shipping and Handling Costs The Company incurred shipping and handling costs totaling € 3.1 million, € 2.9 million and € 2.8 million in 2005, 2004 and 2003, respectively, which are included in cost of sales.

Selling and Marketing Expenses Selling and marketing expenses mainly include wages and salaries, costs for marketing and advertising and costs related to trade fairs and conventions as well as other merchandising costs (including catalogs, brochures, etc.).

Advertising All advertising and promotional costs, totaling € 1.5 million, € 1.7 million and € 1.7 million in 2005, 2004 and 2003, respectively, are expensed as incurred and included in selling and marketing expenses.

General and Administrative Expenses General and administrative expenses predominantly include wages and salaries, audit and other general consulting fees and other costs that relate to the company as a whole (e.g., IT consulting) and expenses related to allowances for doubtful accounts.

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

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 upon both specific identification and the 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 until maturity are carried at amortized cost. Investments with 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.

Accounting of derivative instruments is based upon the provisions of SFAS 133, "Accounting for Derivative Instruments and Hedging Activities," as amended. Pfeiffer Vacuum formally designates and documents the financial instruments as a hedge of a specific underlying exposure, as well as the risk management objectives and strategies for undertaking the hedge transaction. Any ineffective portion of a financial instrument's change in fair value is immediately recognized in earnings. The Company does not engage in speculative hedging for investment purposes. The maturities of all forward contracts are aligned with the date upon which the sales are anticipated to occur.

Inventories Inventories are determined on a average cost basis as well as removals from inventory. Reserves are established to reduce the value of inventories when market is lower than cost with market generally defined as net realizable value for finished goods and replacement cost for raw materials and work in process. Excess inventories are quantities of items that exceed anticipated sales or usage. The Company has guidelines for calculating provisions for excess inventories based on the number of months inventories are on hand compared to anticipated sales or usage. Management uses its judgment to forecast sales or usage.

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:

Production halls	40–50 years
Production and administration buildings	25 years
Parking sites and similar facilities	20 years
Machinery and equipment (including IT 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 analyses 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 In accordance with SFAS 142, "Goodwill and Other Intangible Assets," goodwill and intangible assets other than goodwill which are determined to have indefinite useful lives are no longer being amortized but are subjected to impairment analysis annually or if an event occurs or circumstances indicate that 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. Any impairment charges are recorded in the income statement.

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 generally range from three to five years.

Accounting for Stock-Based Compensation Generally accepted accounting principles for stock-based awards are primarily contained in two accounting standards, APB Opinion 25, "Accounting for Stocks Issued to Employees" and SFAS 123, "Accounting for Stock-Based Compensation." Because SFAS 123 and APB Opinion 25 apply to all transactions in which an entity grants shares of its common stock, stock options or other equity instruments to its employees, the Company considers the convertible bonds to fall within their scope as they meet the definition of an equity instrument. As allowed by SFAS 123, the Company continues to measure compensation cost using the intrinsic value-based method of accounting prescribed by APB Opinion 25. Accordingly, the Company provides proforma disclosures of net income and earnings per share as if the fair value-based method of accounting had been applied. Please refer to Note 9 for further information.

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/or 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 unrecognized net gains or losses 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 cases, 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.

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 carryforwards. 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.

Restructuring The Company recognized restructuring-related expenses in accordance with SFAS 146, "Accounting for Costs Associated with Exit or Disposal Activities." This Standard requires that a liability for costs associated with exit or disposal activities be recognized in the period in which the costs are incurred if a reasonable estimate of fair value can be made. Please refer to Note 16 for further information.

Discontinued operations In spring 2005, the Management Board committed to a plan to dispose of its DVD business, having obtained the required Supervisory Board approval in order to terminate this sideline activity. Beginning with the second quarter of 2005, the DVD business as part of the Germany segment is reflected as a discontinued operation. All prior period statements have been restated accordingly. Please refer to Note 17 for further information.

Adoption of New Accounting Rules

In November 2004, the Financial Accounting Standards Board ("FASB") issued SFAS 151, "Inventory Costs – an amendment of ARB 43, Chapter 4." This statement amends the guidance in ARB 43, Chapter 4, "Inventory Pricing," to clarify the accounting for abnormal amounts of idle facility expense, freight, handling costs, and wasted material (spoilage). The adoption of SFAS 151 did not have any impact on the Company's result of operations and its overall financial position.

EITF 05-5 "Accounting for Early Retirement or Postemployment Programs with Specific Features (Such As Terms Specified in Altersteilzeit Early Retirement Arrangements)," issued on June 1, 2005, adresses accounting for German Altersteilzeit arrangements ("ATZ"). The Company entered into some ATZ contracts. Incurred liabilites are recorded in Pfeiffer Vacuum's financial statements. The adoption of EITF 05-5 did not have a material impact on the Company's result of operations and its overall financial position.

On December 16, 2004, the FASB issued SFAS 123 (revised 2004), "Share-Based Payment," which is a revision of SFAS 123, "Accounting for Stock-Based Compensation." SFAS 123(R) supersedes APB Opinion 25, "Accounting for Stock Issued to Employees" and amends SFAS 95, "Statement of Cash Flows." Generally, the approach in SFAS 123(R) is similar to the approach described in SFAS 123. However SFAS 123(R) requires that all share-based payments to employees, including grants of employee stock options, be recognized in the income statement based on their fair values. Proforma disclosure is no longer an alternative. SFAS 123(R) must be adopted in the first interim or annual period beginning after January 1, 2006. Early adoption will be permitted in periods in which financial statements have not yet been issued. The Company plans to adopt SFAS 123(R) on January 1, 2006, using the modified-retrospective method.

However had Pfeiffer Vacuum adopted SFAS 123(R) in prior periods, the impact of that standard would have approximated the impact of SFAS 123 as described in the disclosure of proforma net income and earnings per share in Note 9 to its consolidated financial statements. SFAS 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 subsequent to 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 deduction were K€ 382, K€ 475, and K€ 678 in 2005, 2004 and 2003, respectively.

As permitted by SFAS 123, the Company currently accounts for share-based payments to employees using the intrinsic value method under Opinion 25 and, as such, generally recognizes no compensation cost for employee stock options. The adoption of the fair value method under SFAS 123(R) will not have a significant impact on the Company's result of operations and overall financial position.

Notes to the Consolidated Balance Sheets and Consolidated Statements of Income

1. Trade Accounts Receivable

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

	2005	2004
Trade accounts receivable	23,255	19,993
Allowance for doubtful accounts	–774	–1,026
Total trade accounts receivable, net	**22,481**	18,967

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. Trade accounts receivable have a remaining term of less than one year. The increase in the trade accounts receivable – gross is primarily due to increased net sales in the year 2005.

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

	2005	2004	2003
Balance at beginning of year	1,026	1,719	1,738
Provisions	264	396	790
Accounts written off	–356	–108	–233
Collections on previously reserved accounts	–160	–981	–576
Balance at end of year	**774**	1,026	1,719

2. Other Accounts Receivable

Other accounts receivable primarily consist of income taxes receivable from the German tax authorities in the amount of approximately € 0.7 million (2004: € 3.0 million) for overpaid income taxes, as well as VAT claims in the amount of approximately € 0.2 million (2004: € 0.6 million). The decrease in other accounts receivable is primarily attributable to tax refunds received.

3. Inventories

Inventories consist of the following (in K €):

	2005	2004
Raw materials	5,441	4,861
Work-in-process	3,989	5,983
Finished products	7,773	7,504
Reserves	–3,456	–4,394
Total inventories, net	**13,747**	13,954

Dec. 31

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

	2005	2004	2003
Balance at beginning of year	4,394	4,541	4,930
Provisions	693	322	256
Inventory written off	–1,631	–469	–645
Balance at end of year	**3,456**	4,394	4,541

4. Property, Plant and Equipment, Goodwill and Other Intangible Assets

The development of the Company's fixed assets is shown in the consolidated schedule of fixed assets.

5. Investment Securities

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

			2005			2004
	Amortized cost	Unrealized holding loss	Fair value	Amortized cost	Unrealized holding loss	Fair value
Current investment securities	3,000	39	2,961	9,000	18	8,982
Non-current investment securities	6,000	250	5,750	1,002	2	1,000
Total investment securities	**9,000**	**289**	**8,711**	10,002	20	9,982

Dec. 31

Debt securities which the Company has the ability and positive intent to hold until maturity are carried at amortized cost. The Company considers the impairments to be temporary as the securities will be redeemed at notional value. All investment bonds and similar securities are securities having variable interest rates. The current investment security amounting to € 3.0 million will mature in September 2006, while the non-current investments will mature in 2007 (€ 1.0 million) and in 2015 (€ 5.0 million).

6. Long-Term Debt

The Company had no long-term debt as of December 31, 2005 and December 31, 2004. Pfeiffer Vacuum and its subsidiaries have various lines of credit available for operating purposes totaling approximately € 10.8 million (2004: € 10.9 million). No amounts under these lines were outstanding at December 31, 2005 and 2004.

7. Accrued Liabilities

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

	2005	2004
Warranty provisions	2,887	2,897
Employee-related expenses	6,141	5,882
Other	612	740
	9,640	9,519

Dec. 31

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

Summary of activity in warranty provisions (in K €):

	2005	2004	2003
Balance at beginning of year	2,897	3,529	3,774
Provisions	789	1,250	2,459
Utilization	–319	–768	–2,070
Releases	–480	–1,114	–634
Balance at end of year	**2,887**	2,897	3,529

8. Income Taxes from Continuing Operations

Under current German corporate tax law, taxes on income are composed of corporate taxes, trade taxes and an additional surtax, which amount to a statutory tax rate for the German companies of 37.9 % for the years 2005 and 2004 and of 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. Beginning May 1, 2005, the operations of the German subsidiary Pfeiffer Vacuum Systems GmbH i. L. were discontinued with the corporation and trade tax entity being disbanded and the profit and loss transfer agreement with this entity terminating on April 30, 2005.

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

	2005	2004	2003
Germany	31,340	29,155	17,721
Outside Germany	7,997	7,292	10,309
	39,337	36,447	28,030

The components of the income tax expenses and benefits are as follows (in K €):

	2005	2004	2003
Current			
Germany	12,102	11,192	11,239
Outside Germany	2,436	2,404	2,761
	14,538	13,596	14,000
Deferred			
Germany	–129	659	–362
Outside Germany	562	378	–313
	433	1,037	–675
Income taxes expenses	**14,971**	14,633	13,325

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

	2005	2004
Deferred tax assets		
Pensions	4,256	2,029
Inventory	745	607
Intangible assets	279	400
Tax loss carryforward	28	207
Derivatives	120	–
Other	259	285
	5,687	3,528
Deferred tax liabilities		
Property, plant and equipment	–543	–651
Derivatives	–	–116
Other	–277	–2
	–820	–769
Net deferred tax assets	**4,867**	2,759

Dec. 31

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

	2005	2004
Deferred taxes, short-term		
Deferred tax assets	1,124	892
Deferred tax liabilities	–15	–118
	1,109	774
Deferred taxes, long-term		
Deferred tax assets	4,563	2,636
Deferred tax liabilities	–805	–651
	3,758	1,985
Deferred tax assets, net	**4,867**	2,759

Dec. 31

Reconciliation of income taxes determined using the statutory rate to actual income taxes provided (in K €):

	2005	2004	2003
Income tax expenses at German statutory rate	14,897	13,802	11,061
Higher (lower) foreign tax rates	–14	–78	–507
Loss carryforwards of a non-German subsidiary	–178	–325	532
Taxes due to new legislation on distributed earnings in prior years	–	–	865
Taxes due to dividend payments	69	11	336
Tax debits/credits due to tax filings in prior years	40	–24	–3
Impairment of goodwill	–	393	–
Non-deductible expenses	147	281	245
Tax effect on intercompany transactions with discontinued entity	–	263	979
Other	10	310	–183
Income tax expense	**14,971**	14,633	13,325

As of December 31, 2005, the Company had net operating loss carryforwards of a non-German subsidiary amounting to € 0.1 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. As a result no valuation allowance has been established.

Provision has not been made for additional taxes on the 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 would not be 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 rule will be negligible, as the German investments exclusive of the DVD business (discontinued operations since May 1, 2005) 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.

A tax audit of the German tax authorities was begun in 2004. This tax audit was finalized in 2005. The Company paid additional taxes totaling approximately € 0.2 million for the years 1999 through 2002. This amount is included in the current year's expenses (income tax and VAT) and did not have a material effect on Pfeiffer Vacuum's consolidated financial statements.

9. Stock-Based Compensation

The purpose of the employee participation program is to provide compensation and to motivate the management and certain key employees by providing them with an opportunity to share in the Company's stock price development. In prior years, when stock option plans were not allowed under German law, the use of convertible bonds was common practice among German public companies. The Company's employee participation program utilizes convertible bonds in lieu of stock options. Under this program, the Company provides an employee a loan to purchase a Company-issued convertible bond. The loan and the nominal value of the convertible bond are equal to each other (and to what would be the exercise price in the case of a stock option), and the interest rate on the loan is equal to the interest rate on the convertible bond. Accordingly, there is no out-of-pocket cost to the Company or to the employee for either the loan or the convertible bond (as in the case of a stock option). The employee may then exercise his or her right to convert the bond to Company stock (equivalent to the exercise of a stock option) by repaying the loan to the Company for the nominal value of the convertible bond (which is equal to what would be the exercise price in the case of a stock option).

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 certain salaried employees of the Company in Germany and other countries. The final conversion date was December 9, 2005. No bonds were converted under this plan. The Company redeemed the convertible bonds on December 10, 2005.

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 certain salaried employees of the Company in Germany and other countries.

The conversion feature entitles the bearer to convert each bond to 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 180,000 and 190,000 option shares, relating to the convertible bonds for the 2002 issue outstanding at December 31, 2005, and December 31, 2004, 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. Employee loans granted under this program amounted to € 313,600 as of December 31, 2005.

As of December 31, 2005, employees had forfeited 1,000 of these convertible bonds having an aggregate principal value of € 128,000 and repaid the corresponding employee loans.

Summary of option shares related to the convertible bonds:

	Number of shares from bonds issued in 2000	Number of shares from bonds issued in 2002	Number of shares from total bonds issued	Weighted average exercise price per share
Convertible shares outstanding on January 1, 2003	180,000	215,000	395,000	45.22
Granted	–	–	–	–
Exercised	–	–	–	–
Forfeited	–60,000	–5,000	–65,000	47.63
Convertible shares outstanding on December 31, 2003	120,000	210,000	330,000	44.74
Granted	–	–	–	–
Exercised	–	–	–	–
Forfeited	–	–20,000	–20,000	42.86
Convertible shares outstanding on December 31, 2004	120,000	190,000	310,000	44.86
Granted	–	–	–	–
Exercised	–	–	–	–
Forfeited	–	–10,000	–10,000	42.86
Redeemed	–120,000	–	–120,000	48.03
Convertible shares outstanding on December 31, 2005	**–**	**180,000**	**180,000**	42.86

108,000 and 57,000 option shares under the 2002 program were exercisable on December 31, 2005 and 2004, respectively. Additionally, 120,000 option shares of the 2000 program were exercisable on December 31, 2004. The Company did not recognize any compensation expense for the stock-based compensation awards in the years 2005, 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 issued 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 proforma 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 proforma purposes using the fair-value method, the Company's net income would have been K € 22,366 (2004: K € 10,948) and net income per share would have been € 2.57 (2004: € 1.26).

10. Pension Benefits and Similar Obligations

Most employees in Germany, the United States, 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. 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 €):

	2005	2004	2003
Service cost	1,026	923	970
Interest cost	2,228	2,164	2,163
Expected return on assets	–2,202	–2,081	–73
Amortization of:			
Unrecognized net actuarial losses	169	21	46
Unrecognized prior service cost	69	73	77
Other	25	21	–
Net pension cost	**1,315**	1,121	3,183

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

	2005	2004
Change in benefit obligation		
Beginning projected benefit obligation	44,488	39,870
Service cost	1,026	923
Interest cost	2,228	2,164
Benefit payments	–1,664	–1,614
Actuarial losses	4,067	3,286
Impact of foreign currency exchange rate differences	364	–141
Ending projected benefit obligation	**50,509**	44,488
Accumulated Benefit Obligation	**45,835**	40,329
Change in plan assets		
Fair value at beginning of year	39,836	38,229
Return on plan assets	1,848	2,235
Company contributions	1,377	1,087
Benefits paid	–1,664	–1,614
Impact of foreign currency exchange rate differences	202	–101
Fair value at end of year	**41,599**	39,836
Funded status of plans (underfunded)	–8,910	-4,652
Unrecognized actuarial loss	10,359	6,035
Unrecognized prior service cost	150	219
Unrecognized transition obligation	227	249
Net amount	**1,826**	1,851

Amounts recognized in balance sheets (in K €):

	2005	2004
Intangible assets from pension accounting	154	220
Accrued pension	–4,382	–1,455
Prepaid pension costs	–	2,817
Other comprehensive income (before taxes)	6,054	269
Net amount	**1,826**	1,851

Dec. 31

Significant actuarial assumptions used (in %):

	2005	2004	2003
Germany			
Weighted average discount rate	4.40	5.00	5.50
Rates of increase in compensation levels	2.75	2.75	2.75
Expected long-term rate of return on assets	4.50	5.50	5.50
United States, Netherlands and Belgium			
Weighted average discount rate	4.20 – 5.75	5.00 – 6.25	4.75 – 6.25
Rates of increase in compensation levels	3.00	3.00	3.00
Expected long-term rate of return on assets	4.50 – 7.50	4.50 – 7.50	4.50 – 7.50

Dec. 31

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

The increase in the actuarial losses was primarily attributable to a reduction in the assumed discount rate. The Company's expected long-term rate of return on assets is based upon premium corporate bonds and the appreciation of equities held by the trust.

The Company expects that cash contributions to plan assets in 2006 will approximate 2006's net periodic pension cost.

Projected future benefit payments to retired employees (in K €):

2006	2007	2008	2009	2010	2011 – 2015	**Total**
1,739	1,912	2,065	2,184	2,304	13,190	**23,394**

Composition of plan assets:

		2005		2004
	K €	%	K €	%
Equity securities	8,757	21.0	2,947	7.4
Fixed-income securities	27,151	65.3	32,580	81.8
Cash and cash equivalents	4,121	9.9	2,600	6.5
Other	1,570	3.8	1,709	4.3
	41,599	**100.0**	39,836	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€ 356 for 2005, K€ 636 for 2004 and K€ 642 for 2003.

11. Shareholders' Equity

Treasury Stock At the Annual Shareholders' Meeting on June 16, 2004, the shareholders authorized the Company to repurchase ordinary shares of the Company on the open market. The number of ordinary shares that could be repurchased (subject to statutory limitation) was limited to a maximum of 10 % of all issued shares. No shares had been repurchased by the expiration date of this authorization on December 15, 2005. Treasury stock, totaling 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 from 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, 2005, a total of € 51.2 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 € 1.35 per share (2004: € 0.90).

Accumulated Other Comprehensive Income/Loss

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

	2005	2004
Balance at beginning of year	–2,788	–1,563
Change in unrealized gains from derivative instruments for capitalizing payment flows (cash flow hedges)	–622	–592
Tax effect from derivative instruments	236	232
Change in derivative instruments	**–386**	–360
Currency translation differences	**2,327**	–765
Pension valuation differences (minimum pension liabilty)	–5,785	–162
Tax effect from pension valuation	2,193	62
Change in pension valuation	**–3,592**	–100
Balance at end of year	**–4,439**	–2,788

12. Commitments and Other Financial Obligations

The Company has entered into leases and maintenance agreements which expire on various dates, some of which are renewable. The table below presents the maximum amount of the contractual commitments as of December 31, 2005, classified by the periods in which the contingent liabilities or commitments expire.

Contractual obligations (in K €):

	Payments due by period				
	Total	< 1 year	1–3 years	3–5 years	> 5 years
Operating leases	3,511	1,285	1,136	641	449
Purchase obligations	8,874	4,212	3,376	1,286	–
Maintenance contracts	112	85	18	9	–
Convertible bonds	461	–	461	–	–
Pension payments*	23,394	1,739	3,977	4,488	13,190
Total contractual obligations	**36,352**	**7,321**	**8,968**	**6,424**	**13,639**

* Pension payments include only payments for the next ten years as reported by the Company's actuaries.

Purchase obligations include long-term arrangements for future material supplies.

Rental expenses amounted to € 1.1 million for the year 2005, € 1.5 million for the year 2004 and € 1.6 million for the year 2003.

The Company did not have any capital lease obligations in the years 2005, 2004 or 2003.

13. Segment Information

The Company's business operations include the development, manufacture, sale and service of vacuum pumps, vacuum components 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)." Results are reflected in each segment based on the geographic segment where sales are invoiced.

The Company evaluates the success and performance of each segment on the basis of its income before income tax. Transactions between segments are based on the arm's-length-principle.

The following amounts relate only to the Company's continuing operations.

Segment information as of December 31, 2005 (in K €):

	Germany	Europe (excluding Germany)	United States	Rest of World	Others/ Consolidation	Group
Net sales	124,906	49,779	36,366	4,386	–55,920	159,517
Third party	70,159	49,720	36,301	3,337		159,517
Intercompany	54,747	59	65	1,049	–55,920	–
Operating profit	29,267	3,742	3,059	613	107	36,788
Financial income					2,549	2,549
Income before income tax	29,267	3,742	3,059	613	2,656	39,337
Total assets	95,053	19,466	21,599	2,706	–	138,824
Long-lived tangible and intangible assets	21,847	681	158	195	–	22,881
Capital expenditures	1,922	295	144	109	–	2,470
Depreciation/amortization	2,709	368	50	75	–	3,202

Segment information as of December 31, 2004 (in K €):

	Germany	Europe (excluding Germany)	United States	Rest of World	Others/ Consolidation	Group
Net sales	117,211	46,468	33,316	4,931	–50,414	151,512
Third party	67,585	46,371	33,265	4,291		151,512
Intercompany	49,626	97	51	640	–50,414	–
Operating profit	27,506	3,920	2,657	487	48	34,618
Financial income	–	–	–	–	1,829	1,829
Income before income tax	27,506	3,920	2,657	487	1,877	36,447
Total assets	84,116	21,306	15,626	2,323		123,371
Long-lived tangible and intangible assets	22,738	777	58	143	–	23,716
Capital expenditures	1,553	437	9	93	–	2,092
Depreciation/amortization	2,718	408	35	75	–	3,236

Segment information as of December 31, 2003 (in K €):

	Germany	Europe (excluding Germany)	United States	Rest of World	Others/ Consolidation	Group
Net sales	97,532	46,774	32,870	3,557	–42,143	138,590
Third party	60,546	42,459	32,716	2,869	–	138,590
Intercompany	36,986	4,315	154	688	–42,143	–
Operating profit	13,153	6,103	4,148	406	539	24,349
Financial income	–	–	–	–	3,681	3,681
Income before income tax	13,153	6,103	4,148	406	4,220	28,030
Total assets	73,102	19,633	13,442	2,011	–	108,188
Long-lived tangible and intangible assets	23,770	771	86	187	–	24,814
Capital expenditures	1,075	328	30	58	–	1,491
Depreciation/amortization	3,069	518	162	62	–	3,811

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

	2005	2004	2003
Turbopumps	64,397	59,447	53,571
Measurement and analysis equipment, components	41,895	42,529	35,218
Service	23,515	25,011	25,931
Backing pumps	22,775	19,732	18,040
Systems	6,935	4,793	5,830
Total	**159,517**	151,512	138,590

14. 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 Approximately 37 % of the Company's net sales are denominated in currencies other than the Euro, primarily in U.S. dollars. The Company enters into foreign currency forward contracts and options to hedge the exposure of its forecasted sales against currency fluctuations. All derivative financial instruments are entered into only in this scope and qualify for cash flow hedges. Pfeiffer Vacuum recognizes these derivative financial instruments either as assets or liabilities at their fair values. Changes in the value of these cash flow hedges are recorded in stockholders' equity as a component of other comprehensive income/loss, net of applicable taxes. These amounts are subsequently reclassified into earnings in the same period as the underlying transactions affect operating income.

For the year ended December 31, 2005 and 2004, there were no gains or losses that were recognized in earnings due to hedge ineffectiveness. For the same periods, no gains or losses had to be reclassified from accumulated other comprehensive income into earnings as a result of the discontinuance of cash flow hedges.

The accounting of derivative instruments is based upon the provisions of SFAS 133, "Accounting for Derivative Instruments and Hedging Activities," as amended. Pfeiffer Vacuum formally designates and documents the financial instruments as a hedge of a specific underlying exposure, as well as the risk management objectives and strategies for undertaking the hedge transaction.

The Company's contracts are marked to market at period end using quoted forward rates. The fair values recorded in other payables for the period ended December 31, 2005 totaled K€ 316 and the fair values recorded in other assets for the period ended December 31, 2004 totaled K € 551. The loss in 2005 was K € 196 and the gain in 2004 was K € 190, net of the income tax effect of K € 120 and K € –116, respectively, in other comprehensive income/loss.

The Company does not engage in speculative hedging for investment purposes. The maturities of all forward contracts are aligned with the date the sales are anticipated to occur. As of December 31, 2005, and December 31, 2004, no contracts held by the Company had a maturity date greater than one year. Accordingly, the Company expects the entire liability of K€ 316 to be reclassified into earnings during the year 2006.

As of December 31, 2005, and 2004, the notional amounts of the forward contracts were € 10.3 million and € 15.4 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.

15. Earnings per Share

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

	2005	2004	2003
Net income from continuing operations (K€)	23,742	21,814	14,705
Denominator for basic earnings per share – weighted-average shares	8,690,524	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	8,690,524	8,750,201
Earnings per share (in €)			
Basic earnings per share	2.73	2.51	1.68
Diluted earnings per share	2.73	2.51	1.68

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

16. Restructuring

During the third quarter of 2004 and after other cost reduction measures proved ineffective, the Company decided to cease the DVD business and entered into a plan of termination which impacted most of the employees in this division. DVD business dealt with development and production of manufacturing lines for DVDs and fell within the Germany operating segment. Due to the German Works Council Constitution Act ("Betriebsverfassungsgesetz") the Company entered into an agreement with its employee council regarding the provisions of the one-time termination benefits for 51 employees. This agreement included the date of termination of each employment contract, amounts of termination payments and the payment date. The accrued amount includes only the severance payment and not regular salaries which were paid out during the minimum retention period and were reflected as period costs. Employees received severance regardless of whether they remained with the Company for the minimum retention period.

The redundancy plan was approved by the Management, having the corresponding authority to do so, the employees to be terminated, their function and their location were identified in this plan, each dismissed employee was able to calculate their individual indemnity by using the formula set up in the plan (depending on age, seniority and salary) and it was and is still unlikely that significant changes to the plan will be made or that the plan will be withdrawn.

The total amount expensed in the third quarter of 2004 regarding this redundancy plan was approximately € 1.2 million. The accrued restructuring costs due to the redundancy program amounted to € 0.9 million at December 31, 2004 and were completely paid off until September 30, 2005. The Company does not expect additional expenses due to this program.

17. Discontinued Operations

In spring 2005, the Management Board committed to a plan to dispose of this business, having obtained the required Supervisory Board approval in order to terminate this sideline activity. Beginning with the second quarter of 2005, the DVD business as part of the Germany segment is reflected as a discontinued operation. All prior period statements have been restated accordingly.

In spring 2005, the Company sold by auction the fixed assets and the respective inventories of the manufacturing site in Aschaffenburg. The disposal of the fixed assets and the respective inventories resulted in a loss before tax of approximately € 0.2 million.

Gains and losses of discontinued operations were as follows (in K €):

	2005	2004	2003
Loss from discontinued operations before income tax benefit	–1,208	–16,821	–4,853
Income tax benefit	352	6,633	2,894
Net loss from discontinued operations	**–856**	–10,188	–1,959
Loss on disposal of discontinued operations before income tax benefit	–222	–	–
Income tax benefit	84	–	–
Net loss on disposal of discontinued operations	**–138**	–	–
Total loss from discontinued operations before income tax benefit	–1,430	–16,821	–4,853
Income tax benefit	436	6,633	2,894
Net total loss from discontinued operations	**–994**	–10,188	–1,959

The Company does not expect any future expenses due to these discontinued operations.

The assets and liabilities of the discontinued operations were as follows (in K €):

	2005	2004
Assets		
Trade accounts receivable and other receivables	–	6
Inventories – net	–	911
Intangible and fixed assets	–	602
Deferred taxes	–	343
Total current assets	–	1,862
Liabilities		
Trade accounts payable and other payables	–	1,060
Accrued other liabilities	–	126
Total current liabilities	–	1,186

Dec. 31

The earnings per share from discontinued operations amount to € –0.11, –1.17 and –0.22 for the years ended December 31, 2005, 2004 and 2003, respectively.

18. Minority interests

Prior to 2005, the Company did not separately disclose the interests of minority shareholders of the consolidated subsidiaries Pfeiffer Vacuum (Schweiz) AG, Pfeiffer Vacuum Korea Ltd. and Pfeiffer Vacuum (India) Ltd. The minority ownership in these entities represented 0.6 %, 24.5 % and 27.0 %, respectively for each of the years ended December 31, 2005, 2004 and 2003. Due to an increase in the volume of business at these subsidiaries, the cumulative interests of these minority shareholders have now been separately recorded and disclosed. The cumulative effect of recording these minority interests resulted in a charge of K € 624 during the fiscal year ended December 31, 2005, of which K € 99, K € 97 and K € 82 related to the income of the fiscal years 2005, 2004 and 2003, respectively. During 2005, K € 70 of dividends were repaid to minority shareholders.

Major Differences between German and U.S. Accounting Principles

The Company utilizes the exempting provision of Section 292a HGB in its superseded version which continues to be applicable. This provision 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 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 the 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 of the 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 the 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 Section 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. The HGB does 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 the HGB, this recognizes differences between the tax accounts and Financial Statements I and II and the effects of consolidation measures. Unlike the HGB, it only recognizes such differences if they are temporary. Additionally, deferred taxes are recognized on net operating loss (NOL) carryforwards 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 also states 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 the HGB and U.S. GAAP, provisions for pension liabilities are formed on the basis of expected, discounted future payments. Under the 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 the HGB.

The minimum pension liability recognized under SFAS 87 satisfies the provision requirements of the 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 the 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 from continuing operations were as follows (in K€):

	2005	2004	2003
Wages and salaries	35,305	34,164	35,573
Social security, pension and other benefit cost	8,202	7,453	5,326
Thereof for pensions	1,793	1,527	3,085
Total	**43,507**	41,617	40,899

Net losses from discontinued operations for the years ended December 31, 2005, 2004 and 2003 include personnel expenses amounting to K€ 371, K€ 4,301 and K€ 6,199, respectively.

Number of Employees On December 31, 2005 and 2004 the number of employees (continuing operations) was as follows:

Number of employees:

	2005	2004
Annual average		
Salaried employees	448	459
Wage earners	243	238
Total	**691**	697
Balance sheet date		
Salaried employees	447	458
Wage earners	244	238
Total	**691**	696

After 49 employees as of December 31, 2004 no employees were engaged in discontinued operations on December 31, 2005. Six employees were engaged on annual average in 2005 (2004: 53).

Management Board

- Wolfgang Dondorf (CEO), Diplom-Ingenieur
- Manfred Bender (CFO), Diplom-Betriebswirt

The aggregate amount of compensation paid by the Company during the year ended December 31, 2005, to all members of the Management Board of the Company, as a group, for services in all capacities was € 1.1 million (2004: € 1.3 million), including a fixed element amounting to € 0.5 million (2004: € 0.8 million) and a variable element amounting to € 0.6 million (2004: € 0.5 million). A pension accrual in the amount of € 3.2 million (2004: € 3.3 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),
  Dean 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 (2004: 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 2005 in December 2005. 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 Comparison 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, 2006

Management Board

Wolfgang Dondorf Manfred Bender

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, 2005. 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, based on the results of our audit, the consolidated financial statements are in accordance with Accounting Principles Generally Accepted in the United States of America and give a true and fair view of the net assets, financial position, results of operations and cash flows of the group.

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, 2005, has not led to any reservations. In our opinion the management report is in line with the other information in the consolidated financial statements, provides on the whole a suitable understanding of the group's position, and suitably presents the opportunities and 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, 2005, 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, 2006

Ernst & Young AG
Wirtschaftsprüfungsgesellschaft

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

Transforming visions into reality.

Vacuum produces pressure conditions that are similar to those found in space, which are indispensable in manufacturing any number of high-tech products. Nor would many forward-looking ideas be feasible without vacuum technology from Pfeiffer Vacuum. Our researchers and developers are constantly launching vacuum ideas around the globe and beyond. Experiments and analyses are conducted on the International Space Station (ISS), for example. The research findings produced by space missions serve as the foundation for new developments that enrich our daily lives.

Appendix >>

Vacuum Glossary

Backing pump
A vacuum pump employed in combination with another vacuum pump that enables it to operate by producing the required low pressure on the outlet side (rotary vane or dry pumps, for example).

Dry pump
A mechanical pump for generating low and medium vacuum (see “Vacuum”) that compresses the advanced gas to atmospheric pressure. It operates ”dry“ in the pump chamber, i.e. it does not require lubricants.

Gas analysis
A method of determining the composition of a gas mixture.

Leak
Leaks in a vacuum apparatus are leakages in the wall or at joints, caused by faulty material or processing or incorrect handling of the sealing elements.

Leak detector
A device used to find leaks.

Mass spectrometer
A device used for performing gas analysis.

Pressure
The force exerted by a gas on the walls of a recipient. In vacuum technology, the unit of pressure is expressed in millibars [mbar].

Recipient
A container that is evacuated by vacuum pumps.

Roots pump
A mechanical pump for generating low and medium to high vacuum (see ”Vacuum“). It requires a backing pump (see “Backing pump”) in order to operate.

Rotary vane pump
A mechanical pump for generating low and medium vacuum (see "Vacuum") that compresses the advanced gas to atmospheric pressure.

Total pressure measurement
Physical measurement principles for determining the pressure in a vacuum system.

Total pressure measurement instrument
A vacuum meter for measuring the total pressure of a gas or gas mixture.

Turbopump
A mechanical pump for generating high and ultra-high vacuum (see "Vacuum"). It requires a backing pump (see "Backing pump") to operate.

Vacuum
The surface of the earth is surrounded by a layer of air (atmosphere) that exerts a given pressure (atmospheric pressure). A vacuum exists if the pressure prevailing in a vessel is lower than the atmospheric pressure that surrounds it. Vacuum technology differentiates between four vacuum ranges:

- Low vacuum: From 10^{3} to 1 mbar, e.g. for vacuum packaging
- Medium vacuum: From 1 to 10^{-3} mbar, e.g. for decorative coating
- High vacuum: From 10^{-3} to 10^{-7} mbar, e.g. for equipment used in doping checks and environmental analysis
- Ultra-high vacuum: From 10^{-7} to 10^{-12} mbar, e.g. for space simulation or scientific research

Vacuum pumping station
A combination of multiple vacuum pumps interconnected by means of vacuum components like valves and flanges.

Vacuum system
A combination of vacuum pumping station, recipient and electrical/electronic controls.

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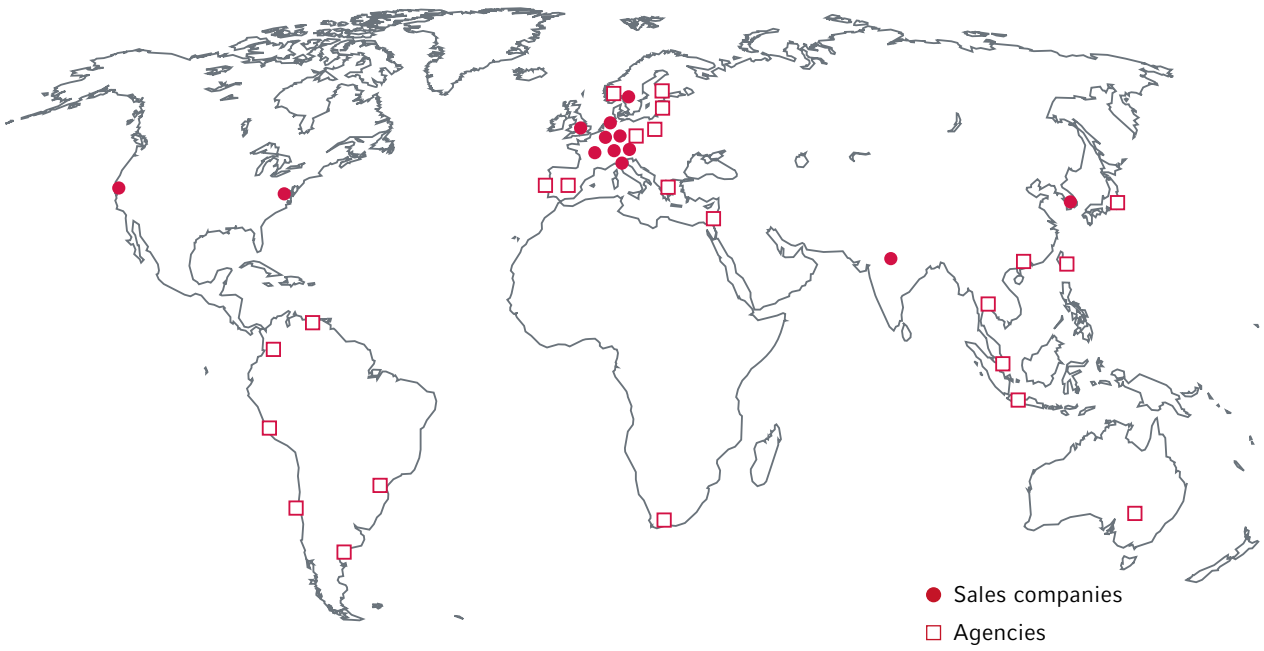

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Introduction ("Vacuum")
Based upon the book "Einstein and the Power of Quantum Vacuum"
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Captions
- Picture page 8 „At a Glance":
  Yvonne Zapletal, Accounting
- Picture page 68 „MD & A":
  Christoph Ganswindt, Market Research
  Noraratana Minderjahn, Short-time employee
  Dirk Kühn, IT
  Kerstin Tschuschner, Customer Service

A German-language version of this Annual Report is also available.
Please visit our online version under www.pfeiffer-vacuum.net.

Financial Glossary

In our Financial Glossary you will find formulas for calculating the key numbers and ratios, as well as definitions of financial terms. >>

Financial Glossary

Cash and cash equivalents
Bottom line in statement of cash flow/total liquid assets

Cash flow from investment/divestiture activities
Net cash used for/provided from investments/divestitures

Cash flow from operating activities
Net cash used/provided, not influenced by investment, divestiture or financial activities

Corporate Governance
Responsible corporate management and supervision with a view to long-term economic value added (EVA)

Current assets ratio
Current Assets **:** Current Liabilities **x** 100

Dividend yield
Dividend **:** Trading Price **x** 100

Equity ratio
Shareholders' Equity **:** Balance Sheet Total **x** 100
(The higher the ratio, the lower the debt level)

Free-float
Broadly held shares

Gross domestic product (GDP)
Value of economic performance stemming from the domestic production of goods and services during the reporting period

Gross profit
Net sales less cost of sales

Market capitalization
Number of Shares **x** Trading Price

Operating profit (EBIT)
Earnings before interest and taxes

Operating profit margin (EBIT margin)
Operating Profit **:** Net Sales **x** 100
(The higher the percentage, the higher the profitability)

Research & Development expense ratio
R & D Expense **:** Net Sales **x** 100

Return on equity
Net Income **:** Shareholders' Equity **x** 100

Financial Calendar

> 2005 Annual Results
Thursday, March 23, 2006

> 1st Quarter 2006 Results
Wednesday, May 3, 2006

> 2nd Quarter 2006/1st Half Year 2006 Results
Thursday, August 3, 2006

> 3rd Quarter 2006/9-Month 2006 Results
Tuesday, November 7, 2006

> 2006 Annual Shareholders Meeting
Wednesday, May 31, 2006, 2:00 P.M.,
Wetzlar Municipal Hall

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