PFEIFFER VACUUM

Pfeiffer Vacuum Technology AG

Consolidated Financial Statements 2005

as per § 292a HGB in connection with Art. 58 (5) Sentence 2 EGHGB

Vacuum – Powering a World of Innovation

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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Consolidated Financial Statements* >>

Contents

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

Balance Sheets

December 31,

K €	Note	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/ Con-solidation	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/ Con-solidation	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/ Con-solidation	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

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 %.

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.

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.

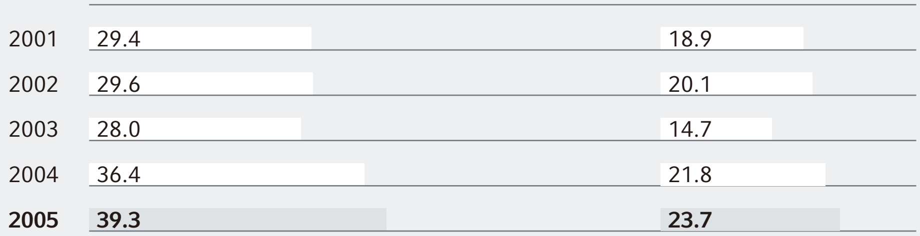
Operating Profit and EBIT Margin 2001 – 2005

	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**

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)



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)

2001	0.0
2002	2.5
2003	2.0
2004	10.2
2005	**1.0**

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)

2001	18.9
2002	17.5
2003	12.7
2004	11.6
2005	**22.7**

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

Dec. 31

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.

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.

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.

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)

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.

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