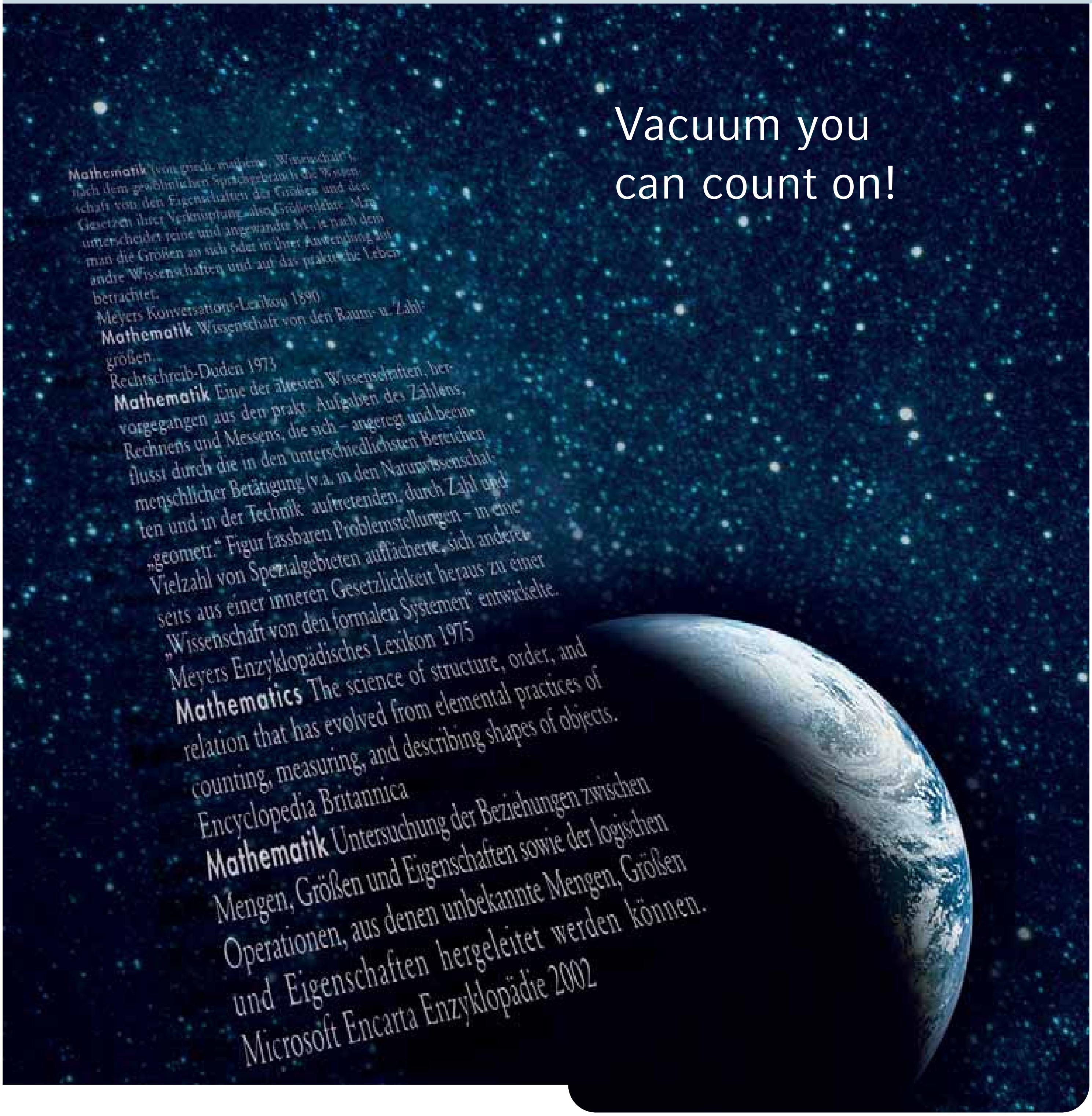
PFEIFFER VACUUM

ANNUAL REPORT 2006



Key Performance Indicators →

Contents

Key Performance Indicators

Net sales (in € millions)

2002	150.7
2003	138.6
2004	151.5
2005	159.5
2006	**179.5**

EBIT margin (in %)

2002	17.2
2003	17.6
2004	22.8
2005	22.8
2006	**25.1**

Operating profit (in € millions)

2002	26.0
2003	24.3
2004	34.6
2005	36.4
2006	**45.0**

Earnings per share (in €)

2002	1.99
2003	1.46
2004	1.34
2005	2.64
2006	**3.39**

Return on shareholders' equity (in %)

2002	19.0
2003	13.4
2004	11.7
2005	20.5
2006	**21.4**

Equity ratio (in %)

2002	59.5
2003	79.3
2004	79.3
2005	80.3
2006	**82.4**

Capital expenditures (in € millions)

2002	1.7
2003	1.5
2004	2.1
2005	2.5
2006	**5.6**

Workforce (Dec. 31)

2002	754
2003	705
2004	696
2005	691
2006	**684**

The numbers for fiscal years 2005 and 2006 were determined on the basis of IFRS, those for fiscal years 2002 through 2004 on the basis of U.S. GAAP.

		2006	2005	Change
Sales				
Total sales	K €	179,484	159,517	12.5 %
Germany	K €	50,882	44,939	13.2 %
Other countries	K €	128,602	114,578	12.2 %
Operating profit	K €	44,957	36,441	23.4 %
Net income	K €	29,786	23,015	29.4 %
Return on sales	%	16.6	14.4	–
Operating cash flow	K €	31,795	24,501	29.8 %
Balance sheet				
Total shareholders' equity and liabilities	K €	168,670	139,406	21.0 %
Cash and cash equivalents	K €	75,354	61,651	22.2 %
Number of shares issued		8,970,600	8,790,600	–
Shareholders' equity	K €	138,972	111,998	24.1 %
Equity ratio	%	82.4	80.3	–
Return on equity	%	21.4	20.5	–
Capital expenditures	K €	5,610	2,470	127.1 %
Workforce				
Workforce (average)		685	691	– 0.9 %
Germany		505	509	– 0.8 %
Other countries		180	182	– 1.1 %
Personnel cost	K €	47,245	43,954	7.5 %
Per employee	K €	69	64	7.8 %
Sales per employee	K €	262	231	13.4 %
Per share				
Earnings	€	3.39	2.64	28.4 %
Dividend	€	2.50	1.35	85.2 %

K € = thousands of euros

VACUUM-RELATED KNOWLEDGE. WITHOUT MATHEMATICAL THINKING, WITHOUT THE WORLD OF NUMBERS, WE WOULD BE LIVING IN AN ENTIRELY DIFFERENT WORLD. IT HAS ONLY BEEN OUR KNOWLEDGE OF THE LOGIC OF NUMBERS AND HOW TO USE THEM THAT HAS ENABLED US TO RECOGNIZE, UNDERSTAND AND DESCRIBE THE NATURE THAT SURROUNDS US. CONSEQUENTLY, MATHEMATICS ALSO SERVED AS A BASIS FOR THE DEVELOPMENT OF VACUUM, AND IT REMAINS THE MOST IMPORTANT PREREQUISITE FOR ADVANCES IN VACUUM TECHNOLOGY. IT IS IN THIS SPIRIT THAT WE NOT ONLY INVITE YOU TO STUDY OUR ANNUAL REPORT BUT ALSO OFFER YOU A BIT OF INSIGHT INTO THE FASCINATING WORLD OF MATHEMATICS. JUST AS WE OURSELVES EXPERIENCED IT DURING A VISIT TO THE MATHEMATIKUM, A TRULY UNIQUE MUSEUM IN GIESSEN, GERMANY.

RÜDIGER SATTLER Systems, with the Company for 8 years

Mathematics as art. Seeing the world through different eyes! The optimist says the glass is half full; for the pessimist, the glass is half empty. Things appear differently to us when we see them from a new point of view, from a new perspective. And we know from quantum physics how reality can be created as a direct function of the observer. At first glance, the object shown on the right would appear to be a tangled maze of wire, without any structure. If illuminated from the correct side, though, it shows its true nature. The many shadows cast by the individual pieces of wire complement one another perfectly to form the large shadow of the 1. This object was created in 2005 by American artist Larry Kagan.

AT A GLANCE

The Year 2006

2006

1

January

New Sales Office in Shanghai
We anticipate rising sales in the years to come and plan to steadily expand our presence in China.

2

February

Growth in the Industrial Market Segment
A new business relationship is established with a key account from the field of industrial furnaces.

3

March

Innovative Vacu² Multi-Stage Vacuum Process
Working together with die casting specialists, PFEIFFER VACUUM develops the new Vacu² multi-stage vacuum die casting process. The system premieres at the Euroguss trade show in Nuremberg.

4

April

New Electron Microscope
Products and know-how from PFEIFFER VACUUM contribute to the development of a revolutionary new electron microscope.

5

May

Achema Trade Show
PFEIFFER VACUUM participates in the world's largest exhibition and congress for chemical technology, environmental protection and biotechnology in Frankfurt am Main.

6

June

Record dividend
On June 1, 2006, a dividend of € 1.35 per share is distributed to our shareholders. This corresponds to an increase of 50 % over the previous year.

July

7

Captain Vacuum Joins the PFEIFFER VACUUM Team
Launch of a new, world-wide image campaign intended to set us apart from the competition in a positive light. This type of communication has never before been seen in the vacuum industry.

August

8

Ten Years on the NYSE – President John A. Thain Welcomes PFEIFFER VACUUM
We celebrate the tenth anniversary of our listing on the New York Stock Exchange by ringing the closing bell on August 10, 2006.

September

9

1st Place Again in "The Best Annual Reports"
PFEIFFER VACUUM again wins first place in the TecDAX segment in manager magazin's prestigious rankings of the best annual reports.

October

10

Booming Solar Technology Market
PFEIFFER VACUUM wins a major contract to equip a new solar technology factory in the United States.

November

11

Het Instrument Trade Show
PFEIFFER VACUUM exhibits at Het Instrument, the trade show for healthcare, science and industry in Utrecht, The Netherlands.

December

12

Operating Profit Up Sharply Again
With an operating profit of € 45.0 million for 2006, we set a new record in the Company's history.

Letter from the Management Board – Frankly Speaking –

Dear Shareholders and Readers,

We have been listed for the past ten years on the New York Stock Exchange (NYSE), the world's largest – it was an event we celebrated in a fitting setting on July 16, 2006!

In 1996, an initial public offering by a German small or medium enterprise was totally uncharted territory. We were only the third German corporation that had dared to be listed on the NYSE, because there was not yet any suitable stock market segment available in Germany. Barely one year later, on March 10, 1997, the Neuer Markt stock exchange segment was hectically launched in Frankfurt, and suddenly everyone wanted to go public: Companies, in order to raise capital, and investors, in order to strike it rich in a hurry and seemingly without any risk. The hangover followed in March 2000: At second glance, some publicly traded companies proved to have been built on promises, alone, and vanished from the stock exchange. Any number of CEOs were debunked as smoke and mirror specialists, and some CEOs were even brought to court and wound up in prison as a result of their criminal activities. Instead of anticipated wealth to supplement their old age pensions, many shareholders were suddenly faced with serious losses.

How has PFEIFFER VACUUM developed over the course of the past ten years?

We were termed a "neglected issue," as being "boring," of "not having any soaring share prices." Yet today, we are still here – without any scandals, but with enthusiastic, committed, honest and professional people around the globe. Our company has posted disproportionate growth in both sales and profitability since 2004 following the economic dip from 2000 to 2003.

Our business model has always been simplicity itself:
- We do not constantly ogle our trading price; instead, we pay attention day in and day out to markets, products and our people.
- We want to be a bit better every day.
- We first earn the money before we spend it.
- We are just as careful with our shareholders' = owners' money as we are with our own.
- We don't rest on our laurels because we've been successful; instead, we work even harder to prevail against the international competition.
- We tackle problems courageously, and we solve them.
- We constantly call our structures and processes into question in order to identify potential for improvement.

We don't pontificate about long-winded visions; instead, we simply ask:
What do our customers need, and how can we develop, manufacture and market that at reasonable prices?

We have always been a medium-size company:

- Our organizational structure is simple, understandable and targeted.
- We are straight-forward, open, honest, fast and focused.
- We are committed, enthusiastic and passionate about our business.
- We are never satisfied with what we have achieved; instead, we repeatedly set ourselves new challenges.
- We spend more time with the customer than in meetings.
- And: It's fun to be successful, and failure has to hurt.

Thus we have steadily developed. During the past 2006 fiscal year, we grew our sales by 12.5 % and our before-tax income by 19.0 %. The stock market has rewarded these achievements accordingly:

- Initial trading price on July 16, 1996: € 6.25 per share
- Trading price on January 2, 2006: € 46.76 per share
- Trading price on December 29, 2006: € 64.40 per share

We are debt-free, and our EBIT margin of 25.1 % ranks us among the world's best. Having € 75.4 million in cash is today being termed a "luxury problem," and we are often asked how we intend to solve this "problem." Or to put it the other way around: "Which acquisitions are you planning?" Unfortunately, the objects of our affection are either not for sale or tremendously overpriced. The numerous, once highly praised mergers and acquisitions that have since failed give us a clear warning signal. We continue to be active, but acquisitions are more a matter of market strategies and less a question of balance sheet structures. And here, too, we apply simple common sense: Products, markets, people and cultures have to make for a good fit. We definitely won't endanger PFEIFFER VACUUM through hectic, ill-considered acquisitions and by striving for sheer size alone. Over the course of the coming years, we will be growing disproportionately as a result of our own performance and achievements, and will not necessarily need to grow even faster through acquisitions. Mere size is not an absolute value; otherwise, dinosaurs would still continue to roam the earth!

MANFRED BENDER CFO, with the Company for 9 years

WOLFGANG DONDORF CEO, with the Company for 12 years

The company in numbers. Not everything, but a great deal, of what a company is can be unambiguously expressed in numbers. The best example is this Annual Report as well as overall economic development. We need only to think of a company's constantly changing value on the stock market in this connection. Numbers say more than a thousand words, numbers tie it all together. And when mathematics is termed the science of the properties of magnitudes and of the laws that govern their interrelationship, it is clear to see the extent to which mathematics and mathematical thinking are also necessary in managing a company.

Germany posted economic growth of 2.5 % in 2006, while the world economy grew by 5.2 %. This gives us all the more reason to take pride in the fact that PFEIFFER VACUUM saw growth of 12.5 % during the same period. So the good development of our business that we are experiencing stems first and foremost from our own activities.

We have again set ourselves ambitious goals for 2007, and we are going to do everything in our power to achieve them.

It is our hope that the stock market will continue to reward our successes in the future, and that you, our shareholders, will continue to be pleased with our performance.

Yours truly,

Wolfgang Dondorf

Manfred Bender

Report of the Supervisory Board

Dear Shareholders,

The 2006 fiscal year was a good year for PFEIFFER VACUUM. Significant sales and profitability growth was achieved in virtually all operations. In marking the tenth anniversary of the Company's initial public offering on the New York Stock Exchange, John A. Thain, the president of the NYSE, praised PFEIFFER VACUUM as being one of the soundest and most dependable corporations listed on the NYSE.

Supervisory Board meetings and content

During the 2006 fiscal year, the Supervisory Board informed itself about the current position of the Company and the corporate group in four meetings, discussing these subjects intensively with the Management Board. The Supervisory Board meetings took place on March 13, May 31, July 31 and November 6, all of them in Asslar, plus the constitutive meeting of the newly elected Supervisory Board on May 31. Dr. Oltmanns and Mr. Anderson attended the meeting on July 31 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 has a Management Board Committee, an Administration Committee and an Audit Committee. Meetings of the Management Board Committee were conducted on March 13 and August 10. Meetings of the Audit Committee were held on March 13 and November 6. Moreover, the 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, in particular in the field of dry backing pumps, as well as on the Company's capital investment policy, potential acquisitions, possible expansion of the physical plant at the Asslar location, and additionally on measures relating to the introduction of internal controls pursuant to Section 404 of the Sarbanes Oxley Act. The Supervisory Board complied with all of the obligations vested in it under applicable legislation and the Company's articles of association 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 ("TransPuG"), 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. As an essential element of risk management, the Company's internal controls were adapted in 2006 to reflect the strict requirements of the Sarbanes Oxley Act. The Supervisory Board was regularly informed as to the development of this project. In addition, compliance with the requirements was audited by the independent auditor, who raised no objections.

Corporate governance

As in the year before, the Supervisory Board deliberated on the German Corporate Governance Code ("DCGK") in detail. The Supervisory Board continues to be in agreement with the Management Board that the variances from the German Corporate Governance Code, i.e. in connection with a deductible for the Company's liability insurance and in connection with the structure of the compensation paid to the 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 PFEIFFER VACUUM's strategic alignment and planning. The development of the economy and its impact on the Company were the subject of intensive discussions between the Management and Supervisory Boards. The budget for the 2007 fiscal year was discussed and adopted.

Report of the Supervisory Board

Audit

In accordance with the resolution adopted by the Annual Shareholders Meeting on May 31, 2006, Ernst & Young AG, Wirtschaftsprüfungsgesellschaft, of Eschborn, Germany, was commissioned to audit the Annual Financial Statements of the Company and the Company's Consolidated Financial Statements, which are presented for the first time this year in accordance with International Financial Reporting Standards ("IFRS"), as well as the financial statements of the Company's subsidiaries where prescribed by law. Pursuant to § 315a of the German Commercial Code ("HGB"), Consolidated Financial Statements conforming to the rules of the German Commercial Code were not prepared. The focuses of the audit that the Audit Committee defined with the independent auditor included certain line items in the balance sheet (accounts receivable, inventories, accrued liabilities, additions to and valuation of fixed assets), periodic accruals for net sales, transition to IFRS, as well as the adjustments required for reporting in accordance with U.S. GAAP and the financial section of Form 20-F. The Annual Financial Statements, Management's Discussion and Analysis, as well as the Consolidated Financial Statements for the 2006 fiscal year presented in accordance with IFRS and the consolidated Management's Discussion and Analysis, 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 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 has approved the annual and Consolidated Financial Statements, with the annual financial statements thus being formally adopted. The Supervisory Board discussed in detail with the Management Board its proposal regarding the distribution of a dividend and then concurred with the Management Board's proposal regarding appropriation of the Company's retained earnings.

Supplementary remarks

The Supervisory Board remarks as follows regarding the information contained in Management's Discussion and Analysis pursuant to § 289, Sub.-Para. 4, and § 315, Sub.-Para. 4, of the German Commercial Code: There are no differing classes of shares, which means that all issued shares are vested with the same rights. It is the assessment of the Management and Supervisory Boards that capital investments in the Company in excess of 10 % are pure financial investments whose purpose is not to achieve a material influence. Pursuant to statutory regulations and the provisions contained in the Company's articles of association and bylaws, the members of the Management Board are appointed and recalled through resolution by a simple majority of the Supervisory Board. The Company's articles of association and bylaws can be amended by a simple majority of votes should a higher majority not be legally mandated. The authority of the Management Board to issue shares of stock is vested by the Company's articles of association and bylaws. Accordingly, the Management Board is authorized, with the consent of the Supervisory Board, to increase the share capital of the Company by up to € 11,251,968.00 by June 7, 2010, through issuance of new shares of no-par stock. Moreover, the Management Board is further authorized to acquire treasury stock whose proportionate share of the Company's share capital does not exceed € 2,250,393.60 through November 30, 2007.

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 2006.

Asslar, March 2007

Dr. Michael Oltmanns
Chairman of the Supervisory Board

Company Profile

Headquarters	Asslar, Germany
Established	1890
Purpose of the Company	To develop, manufacture and market components and systems for vacuum generation, measurement and analysis
Manufacturing site	Asslar, Germany
Workforce	684 people worldwide
Operational floor space	Approximately 80,000 m^2
Sales and service	11 subsidiaries and over 20 agencies worldwide
Export ratio	72 %
Quality management	Certified under ISO 9001:2000
Environmental management	Certified under ISO 14001:2004
Stock exchange listings	
NYSE	1996, listing as the first medium size German enterprise
Deutsche Börse	1998, second listing on the Neuer Markt Stock Exchange, today the Deutsche Börse Prime Standard/TecDAX
Accounting	IFRS
Capital stock	K € 22,965
Number of shares	8,970,600 shares
Free-float	100 %
Cash and cash equivalents	€ 75.4 million
Equity ratio	82.4 %

Dec. 31

THE SUPERVISORY BOARD:

WILFRIED GLAUM, HELMUT BERNHARDT, DR. MICHAEL OLTMANNS, MICHAEL ANDERSON, GÖTZ TIMMERBEIL, MANFRED GATH

(clockwise)

Mental games. Concrete problems are the greatest challenges to the mind. What is needed in order to solve these problems are imagination, an overview of the various possibilities and the ability to recognize the correct solution. Puzzles are a way of playfully dealing with problems and gaining practice with them. Solving a puzzle means using small steps and trials to think about a problem, to be especially patient in playing a game, as with a jigsaw puzzle, in which the object is to combine the individual pieces of the puzzle into a whole. Like the Penrose puzzle, for example, in which the entire table can be transformed into a kind of "flower." It was named after Roger Penrose, who in 1974 discovered this special form of individual tiles with which an infinite number of patterns can be laid. Patterns that offer especially pleasing esthetics. Locally, they are highly symmetrical; globally, on the other hand, there is a total loss of symmetry.

Share Performance

THE EXTREMELY POSITIVE DEVELOPMENT OF THE TRADING PRICES OF OUR SHARES IN 2006 IS A REFLECTION OF THE COMPANY'S GOOD PERFORMANCE.

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

Deutsche Börse, Prime Standard, Frankfurt	
Stock Symbol	PFV
International Securities Identification Number	ISIN DE0006916604
New York Stock Exchange, New York	
Stock Symbol	PV
International Securities Identification Number	ISIN US7170671025
Bloomberg Symbol	PFV.GY
Reuters Symbol	PV.DE
Number of shares issued	8.970.600
Free-float as of December 31, 2006	100 %

Both investors and issuers experienced a stock market year that was characterized by peaks and valleys. The restructuring and reorganization efforts of recent years, coupled with a positive overall economy, again fueled the profitability of many German industrial corporations, in spite of higher raw materials prices and energy costs.

The year 2006 was a good year for PFEIFFER VACUUM shareholders. They were not only able to benefit from the above-average development of trading prices, but also from a 50 % higher dividend.

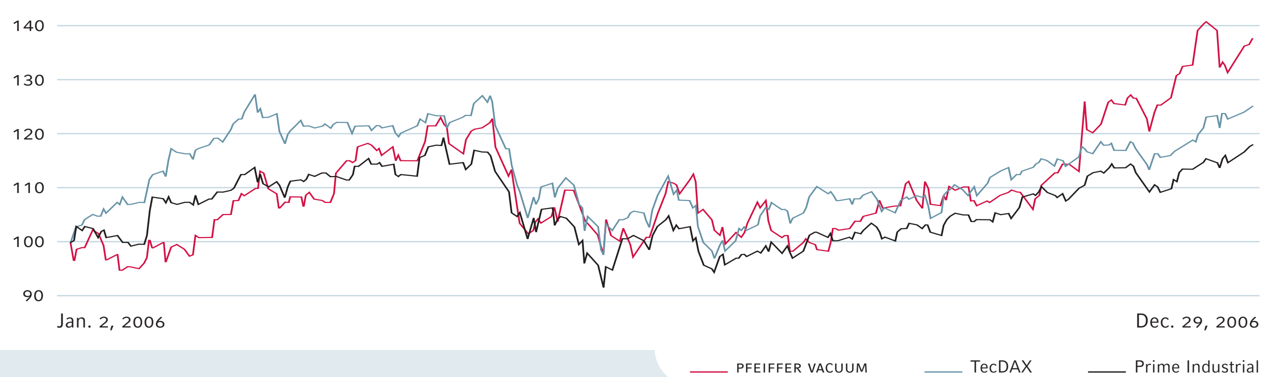
On the Deutsche Börse Stock Exchange in Frankfurt

During the course of the year 2006, PFEIFFER VACUUM shares developed on a more positive note overall than the TecDAX average. While this index rose by 25 % from 597 to 748 points, PFEIFFER VACUUM shares advanced by 38 %, opening at a trading price of € 46.76 on January 2 and closing at € 64.40 on December 29. They reached their low for the year of € 44.45 on January 17, their high for the year of € 66.60 on December 15. This high for the year also marked an all-time high in the ten-year track record of stock market success. Trading volume averaged 26,540 shares per day.

We hold a strong mid-field position in the TecDAX technology index in terms of market capitalization. With 2.9 %, we offer one of the highest dividend yields in the TecDAX. PFEIFFER VACUUM shares are also included in further Deutsche Börse indices, e.g. in the H-DAX, in the Mid Cap Market Index, the C-DAX, the Prime Industrial, the Prime All Share and the Technology All Share.

The following graphic illustrates the positive performance of our shares by comparison with the TecDAX and the Prime Industrial Index.

Share Price Development in %



Share Performance

On the New York Stock Exchange

The trading volume of PFEIFFER VACUUM ADRs on the New York Stock Exchange (NYSE) was significantly lower than on the Frankfurt exchange. Trading prices in New York generally paralleled developments in Frankfurt. Their high for the year of US$ 87.43 was reached on December 15, their low for the year of US$ 53.81 on January 17. Of the total of 8,970,600 shares issued, 695,635 American Depositary Receipts (ADRs) were registered in New York at year-end, representing 7.8 % of total shares (2005: 9.7 %). No single fund or individual investor held more than 5 % of the Company's ADRs in 2006.

In the summer of 2006, PFEIFFER VACUUM celebrated the tenth anniversary of its IPO on the New York Stock Exchange. The highlight was when the president of the NYSE, John A. Thain, hosted a reception ceremony for the management team on August 10, 2006. During this trip, visits were also paid to several of our most important North American investors on the East Coast. Various American investors also visited corporate Headquarters in Germany in 2006 in order to get a better picture of the Company and its management. Many American funds and investment houses are now buying our shares in Frankfurt, as daily trading volumes there are higher than in New York. Some American institutional shareholders have been invested in PFEIFFER VACUUM ever since its initial public offering in New York in July 1996, and continue to have confidence in the development of our Company with its sound financial footing.

For a medium-size company like PFEIFFER VACUUM, the increasing regulatory effort resulting from its stock market listing in the United States as a result of more and more new regulations coming from the U.S., such as the Sarbanes Oxley Act, is immense. The Company therefore welcomes endeavors on the part of leading European associations to conduct talks with the SEC aimed at easing the burden on small and medium-size companies, in particular.

Proposed dividend

PFEIFFER VACUUM is one of the few corporations in the TecDAX that for years has enabled their shareholders to participate in their company's success in the form of a dividend. In 2006, the Company's profitability rose significantly. The Management and Supervisory Boards will therefore propose to the Annual Shareholders Meeting that our shareholders participate in the Company's success in the form of a dividend in the amount of € 2.50 per share. The dividend will thus be higher than the year before (€ 1.35). This again makes PFEIFFER VACUUM one of the highest-dividend issues in the TecDAX!

Shareholder structure

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

On April 12, 2006, Artisan Partners Limited Partnership with headquarters in Milwaukee, Wisconsin (U.S.A.), notified us that they had crossed the 10 % reporting threshold with holdings of 10.05 % of our shares. Arnhold and S. Bleichroeder Holdings Inc. and the First Eagle Overseas Fund with headquarters in New York have held more than 10 % of our shares since March 24, 2005, with shareholdings of 10.4 %. Both of these funds view themselves as investors with a long-term focus and maintain close contact with PFEIFFER VACUUM that is characterized by a spirit of confidence in its management.

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

Share Performance

Investor relations

Ongoing contact with our investors is naturally an important commitment for us. In 2006, we participated in eight investor conferences in Frankfurt, London, Munich and New York (2005: 6). In connection with the announcement of our 2005 annual results, we conducted a financial press conference in March 2006, as well as an analyst conference in Frankfurt that was attended by over 40 participants. A further analyst conference was conducted in August at corporate Headquarters in Asslar to mark the tenth anniversary of our initial public offering.

At 15 roadshows (2005: 17) in all major financial centers in both Europe and the United States, the members of the Management Board presented our business model and commented on the Company's opportunities and risks. Some 30 visits to the Company on the part of investors, as well as regular conference calls with analysts and investors, document our intensive contact with the financial world.

Around 20 analysts from Germany and other countries regularly follow our Company, assessing PFEIFFER VACUUM's current position and prospects in close contact with the Management Board and the Investor Relations Department. This year, the analysts were particularly interested in the competitive situation resulting from the acquisition of competitor BOC Edwards by Linde AG, in potential corporate acquisitions, our share buyback and the Company's dividend policy. "Buy" and "accumulate" recommendations again predominated in 2006.

The regular Annual Shareholders Meeting on May 31, 2006, was attended by around 400 shareholders. This shareholder presence of nearly 50 % was significantly higher than the year before (31 %). Among other things, this was the result of our increased efforts to address our foreign investors. In addition to the customary agenda items, our shareholders also gave their consent to a new share buyback program. On the day of the Annual Shareholders Meeting, we traditionally invite our investors to visit our facility in order to enable them to get a first-hand look at our Company. This year, nearly 100 shareholders again took advantage of this opportunity to get to know the Company from the inside.

A dedicated investor relations page on the Internet at **www.pfeiffer-vacuum.net** affords everyone an opportunity to inform themselves in detail about everything relating to PFEIFFER VACUUM shares, to download annual reports, quarterly numbers and press releases, or to sign up on an e-mail distribution list to receive future corporate news. In the summer of 2006, we totally relaunched our entire Internet presence, which now offers users even more performance, search functions and download opportunities. An interactive version of the 2006 Annual Report is also available on the Internet.

For the second time in a row, our Annual Report won 1st place in the TecDAX segment in manager magazin's rankings of "The Best Annual Reports." Under the motto "Vacuum – Powering a World of Innovation," we offered an illustrative depiction of the complex subject of vacuum technology. Scoring 95.83 out of a possible 100 points, the Annual Report's clear language and the authenticity of its statements garnered especially high marks.

PFEIFFER VACUUM Share Highlights

		2006	2005	2004
Number of shares issued		8,970,600	8,790,600	8,790,600
Highest trading price*	€	66.60	47.25	35.15
Lowest trading price*	€	44.45	31.60	25.40
Trading price at year-end*	€	64.40	46.17	33.00
Market capitalization at year-end	millions of €	578	406	290
Dividend per share	€	2.50	1.35	0.90
Dividend yield	%	3.9	2.9	2.7
Earnings per share	€	3.39	2.64	1.34**

* Deutsche Börse, Xetra
** U.S. GAAP

The Pythagorean Theorem. What was $a^2+b^2=c^2$ all about again? Expressed verbally, what this formula means is this: In any right triangle, the sum of the areas of the squares whose sides are formed by the two shorter sides of the triangle is equal to the area of the square whose side is formed by the hypotenuse. The hypotenuse is the longest side of the triangle. It connects the two opposite sides that form the right angle. If each of the two sides is squared, their combined areas are equal to that of the square of the hypotenuse. Recognized by Pythagoras in the 6th century B.C., there are today over 400 proofs for this theorem.

MELANIE KEITZER Marketing Communications, with the Company for 4 years

MANAGEMENT'S DISCUSSION AND ANALYSIS

Overview of Sales Revenues, Profitability and Financial Position

OPERATING PROFIT UP SHARPLY AGAIN TO € 45.0 MILLION, THE HIGHEST IN THE COMPANY'S HISTORY!

With sales revenues of € 179.5 million and a growth rate of 12.5 % over the year before, we again succeeded in significantly raising our sales during the past fiscal year. We significantly exceeded our forecast at the outset of the fiscal year calling for sales growth of 6 to 8 %. This highly positive development stemmed, in particular, from sales growth in Asia, the United States and Germany.

In parallel to this sales growth, we were again able to improve the cost structures within the corporate group. Our sales growth was not achieved at the expense of margins, because operating profit grew at an even faster rate than sales revenues: We earned € 45.0 million in 2006, as opposed to € 36.4 million the year before. This represents a record in the Company's history, correlating to a rise of 23.4 %. Our EBIT margin, the ratio between operating profit and sales revenues, rose sharply to 25.1 %, as opposed to 22.8 % in 2005.

Including financial income in the amount of € 1.4 million and tax expenses in the amount of € 16.6 million (2005: € 2.5 million and € 15.0 million, respectively), net income totaled € 29.8 million. This represents an increase of € 6.8 million, or 29.4 %. The after-tax return on sales thus stands at an outstanding 16.6 % (2005: 14.4 %).

The balance sheet, too, demonstrates PFEIFFER VACUUM'S economic strength. Shareholders' equity as of December 31, 2006, amounted to € 139.0 million, as opposed to € 112.0 million the year before. With a balance sheet total of € 168.7 million, our equity ratio amounts to 82.4 % (2005: 80.3 %). The Company continues to have no bank debt. The assets side of the balance sheet essentially comprises cash and cash equivalents in the amount of € 75.4 million, as well as trade accounts receivable (€ 23.9 million).

In fiscal 2006, the Company's principles of accounting were changed from United States Generally Accepted Accounting Principles (U.S. GAAP) to International Financial Reporting Standards (IFRS). This transition had virtually no impact on the Company's overall profitability and only minor effects on its financial position. Please refer to Note 4 in the Notes to the Consolidated Financial Statements.

Leonardo's Vitruvian man. From the Roman architect Vitruvius stems the realization that all human beings have identical or similar proportions, i.e. the ratios between the sizes of the individual limbs of one person are nearly proportional to those of another person. Leonardo da Vinci depicted this in a highly illustrative manner. If a man is 150 cm tall and the span of his outspread arms is 150 cm, the span of the outspread arms of a man who is 180 cm tall will also be 180 cm. In mathematical terms, we can also say that the magnitudes – circles and squares in this case – originate from one another through centric elongation.

Overall Economic Environment

World economy

Growing at a rate of 5.2 %, the world economy developed on a better note in 2006 than the year before (4.7 %). This encouraging overall development stemmed, in particular, from higher growth rates in Europe, while the economies in the United States and Asia grew at a similar speed as in the year 2005.

United States

At 3.3 %, U.S. economic growth was up only marginally from the year before (3.2 %). The growth rate of the world's largest economy can thus still be termed as being satisfactory, although the gap behind economic growth worldwide again widened. This was essentially due to higher energy prices, 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

Economic development in Europe was significantly better in 2006 than the year before. This was primarily attributable to better growth rates in the major European economies of Germany, France and Italy. Following economic stagnation in 2005, Italy was able to post a 1.8 % increase in gross domestic product, while France saw a growth rate of 2.0 %, as opposed to 1.2 % the year before. No significant growth rate increases were recorded in the countries of Eastern Europe; the economies there continued to grow at a high level. In spite of persistently high unemployment, economic development in Germany was significantly more positive in 2006 than the year before. With gross domestic product growing at 2.5 %, Germany's growth rate more or less paralleled those of the Netherlands and the United Kingdom, and was up significantly from its 2005 level (0.9 %). The development of government tax revenues also suggests an improvement in the overall economic situation. However, it should be noted in this connection that at least a portion of this growth was attributable to heightened demand for consumer goods in advance of the increase in Germany's general value added tax rate from 16 to 19 % beginning on January 1, 2007.

Asia

Economic development in the Asian economic region is mainly governed by the situation of the national economies in China, Japan and India. Overall, economic development there roughly paralleled the previous year's level. With growth of 10.7 % (2005: 10.2 %), China continues to post a very good growth rate, numbering it among the world's major growth markets. In Japan, the growth rate of the country's gross domestic product decreased to 2.0 %, while India's growth rate of 8.9 % in 2006 advanced more strongly than the year before (8.5 %).

Vacuum industry

The development in the vacuum industry roughly paralleled the previous year's development and is characterized by stable growth of between 6 and 7 %. The key drivers in this development were the analytical and semiconductor markets, in particular, while the field of research & development did not see any noteworthy growth.

Profitability, Financial Position and Liquidity

Sales development

Presented below are net sales by segment, by region, by product and by market for the year 2006. 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, such as with customers in Japan, Taiwan and China. In net sales by segment, the sales the German company generated through direct deliveries to agents and/or customers outside Germany were 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 € 179.5 million generated in 2006 (2005: € 159.5 million) break down as follows among the various segments:

Sales by Segment

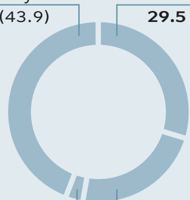
	Germany	Europe*	United States	Asia	Total
2005	70.2	49.7	36.3	3.3	159.5
2006	**79.7**	**53.0**	**41.6**	**5.2**	**179.5**

* Excluding Germany

(in € millions)

Sales by Segment 2006 (2005)

(in %)



* Excluding Germany

Year-on-year sales growth was able to be achieved in all segments in fiscal 2006. The highest growth rates were recorded by our Asian subsidiaries in Korea and India, whose combined sales advanced by € 1.9 million, or 56.1 %, from € 3.3 million to € 5.2 million. The sales of our U.S. subsidiary also rose disproportionately by € 5.3 million, or 14.5 %, from € 36.3 million to € 41.6 million, even though the weak U.S. dollar had a € 0.4 million negative impact on sales revenues. Expressed in U.S. dollars, sales advanced by 7.0 million, or 15.5 %, from 45.3 million to 52.3 million. With growth of + 13.6 %, sales of the German Companies developed slightly above average. On the other hand, the sales generated by the other European companies (excluding Germany) rose only moderately by € 3.3 million, or 6.6 %, from € 49.7 million to € 53.0 million.

Sales by region

Europe (excluding Germany) In Europe, sales totaled € 54.4 million, up € + 3.4 million from € 51.0 million the year before. Within this region, sales developed on a positive note in Switzerland (€ 8.4 million, + 18.7 %) and the UK (€ 6.6 million, + 13.0 %), while stagnating at € 6.3 million in France and declining in Scandinavia (€ 4.7 million, – 20.1 %). Sales also developed exceptionally positively in Austria and Eastern Europe. In this region, sales increased by 27.6 % to € 11.1 million. Accounting for 30.3 % of total sales, Europe continued to generate the largest share of total sales revenues (2005: 32.0 %).

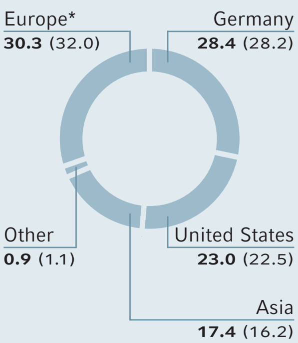
Germany Sales revenues in Germany advanced by € 6.0 million, or 13.2 %, from € 44.9 million to € 50.9 million. Following weaker years, this marked the first time that Germany again saw a significant rise in sales. The stronger demand came both from German end-customers, such as research & development facilities, as well as from Original Equipment Manufacturers (OEMs), who integrate our products into their systems and then export them. In 2006, our Company generated 28.4 % of its total sales with its customers in Germany (2005: 28.2 %).

MATTHIAS ANKEL NC Programming, with the Company for 13 years

ALEXANDER KOHL Roots Pump Production, with the Company for 17 years

The fascination of mathematics. Mathematics, along with astronomy, is the oldest science on earth. It first flourished in Ancient Greece during the Hellenistic period. And from it stemmed the goal of providing a "purely logical proof," as well as its first axiomatization, i.e. Euclidean geometry. Because of its logical structure, it serves as a model for all of the sciences. It has always been and still more than ever remains an applied science. Without it, our modern world with its innumerable technical products would be inconceivable.

Sales by Region 2006 (2005)
(in %)



* Excluding Germany

United States In this region, sales revenues rose disproportionately by 14.7 % from € 36.0 million to € 41.3 million. In 2006, we succeeded in winning nearly 300 new customers in the United States, who generated over US$ 3 million in additional sales. Our customers in the United States accounted for 23.0 % of total sales in 2006, as opposed to 22.5 % the year before.

Asia At + 20.7 %, the Asian region posted the strongest growth rate in the regional sales mix, as well, with sales revenues advancing from € 25.9 million to € 31.2 million. At € 16.0 million (2005: € 15.7 million), Japan accounted for the largest share of total sales in Asia. Sales advanced from € 4.3 million to € 5.8 million (+ 34.4 %) in Korea and from € 2.6 million to € 3.1 million (+ 18.7 %) in India. Moreover, the expansion of our sales and service facility in China during the year under review also generated initial sales growth (+ 70.2%, from € 1.2 to € 2.0 million). The percentage of total sales accounted for by the Asian region has steadily risen in recent years and now totals 17.4 %, as opposed to 16.2 % the year before.

Other regions Sales of € 1.7 million in the other regions of the world remained at the previous year's level. The sales generated in these other regions accounted for 0.9 % of total sales (2005: 1.1 %).

Sales by Region

	Europe*	Germany	United States	Asia	Other	Total
2005	51.0	44.9	36.0	25.9	1.7	159.5
2006	**54.4**	**50.9**	**41.3**	**31.2**	**1.7**	**179.5**

* Excluding Germany

(in € millions)

Profitability, Financial Position and Liquidity

Sales by product

Any number of high-tech products and articles used in daily life can only be manufactured in vacuum chambers in which pressure conditions that are similar to those in outer space prevail. Different types of pumps are needed for the various vacuum pressure ranges: For low and medium vacuum, these are primarily rotary vane, Roots and dry pumps. Turbo-molecular pumps, or turbopumps for short, are employed to generate high and ultra-high vacuum.

Sales by Product

	Turbopumps	Measurement/Analysis Equipment	Service	Backing Pumps	Systems	Other	Total
2005	64.4	41.4	23.5	22.8	6.9	0.5	159.5
2006	**78.3**	**45.9**	**25.3**	**24.8**	**4.6**	**0.6**	**179.5**

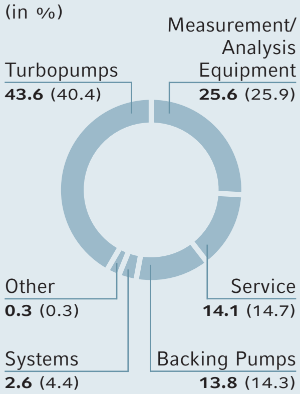
(in € millions)

Turbopumps Our most important product, accounting for 43.6 % of total revenues in 2006 (2005: 40.4 %), is the turbopump. This class of pumps was invented at Pfeiffer nearly 50 years ago, and has since been steadily evolved. Turbopumps are available in a wide variety of versions – from the world's smallest and most compact pump with a pumping speed of 11 liters per second for the analytical industry right through to large, 2,000-liter pumps that are primarily employed in the coating and semiconductor industries. During the year under review, sales of turbopumps rose by € 13.9 million, or 21.6 %, from € 64.4 million to € 78.3 million. The Company was able to further expand its market and technology leadership in this product segment.

Measurement and analysis equipment PFEIFFER VACUUM not only offers its customers products for generating vacuum. Vacuum measurement equipment is every bit as important. A precise knowledge of the total pressure or the quality of the vacuum are prerequisites for assuring proper operation of manufacturing processes that occur under vacuum. This necessitates vacuum measurement and analysis equipment. In order to interconnect the various vacuum components or to disconnect them from one another, we additionally offer a broad selection of installation elements, such as flanges, fasteners, gaskets, seals and valves. Sales of these products increased by € 4.5 million, or 11.1 %, from € 41.4 million the year before to € 45.9 million. Accounting for 25.6 % of total sales, this product category continues to rank second (2005: 25.9 %).

Sales by Product 2006 (2005)

(in %)



Service Service for our products is a category in its own right within the Company's product portfolio. A close-knit, worldwide service network guarantees prompt support for our customers. With our unique selling point of "on-site bearing changes," we offer our customers highly favorable cost of ownership for turbopumps. Service includes maintenance, repair or replacement of products at the factory or at the customer site, supply of spare parts as well as system start-up. Service sales revenues rose by € 1.8 million, or 7.8 %, from € 23.5 million to € 25.3 million. This percentage of total sales accounted for by service thus declined from 14.7 % to 14.1 %.

Backing pumps Our product line of so-called backing pumps consists of rotary vane pumps, Roots pumps and dry pumps. The dry pump line includes diaphragm pumps, reciprocating pumps, screw pumps and complete pumping stations for custom processes. This product category generated sales of € 24.8 million during the year covered by this report (2005: € 22.8 million). This correlates to 13.8 % of total sales, as opposed to 14.3 % the year before.

Systems In addition to individual vacuum components, such as pumps, measurement equipment and components, PFEIFFER VACUUM also develops and manufactures complete vacuum systems for customer-specific processes. During the year under review, sales revenues for leak detection systems and coating systems declined, with sales in the systems product category dropping by € 2.3 million, or 33.9 %, from € 6.9 million to € 4.6 million. Systems accounted for 2.6 % of total sales, as opposed to 4.4 % the year before.

Other This category records sales revenues generated by leasing buildings. Sales revenues here remained stable at € 0.6 million (2005: € 0.5 million).

Profitability, Financial Position and Liquidity

Sales by market

This section of the Annual Report details the development of sales revenues in the individual markets in 2006 relative to the year before.

Sales by Market

	Analytical Industry	Industrial	R & D	Coating	Semiconductors	Chemical/Process Technology	Total
2005	40.0	37.5	30.8	26.7	18.1	6.4	159.5
2006	**45.2**	**44.6**	**37.5**	**27.0**	**19.3**	**5.9**	**179.5**

(in € millions)

Analytical industry Sales in this category saw significant growth during the year under review, advancing by € 5.2 million, or 13.0 %, from € 40.0 million to € 45.2 million. At 25.1 %, this market's percentage of total sales remained at the same level as in 2005. Modern analytical systems would be inconceivable without vacuum technology. In 2006, our focus was on vacuum products for ever-smaller, portable analytical equipment. During the year under review, PFEIFFER VACUUM showcased these products at the Pittcon (Orlando, Florida in the U.S.A.) and Analytica (Munich, Germany) trade shows. We were qualified as a component supplier to a major manufacturer of an entirely new electron microscope concept.

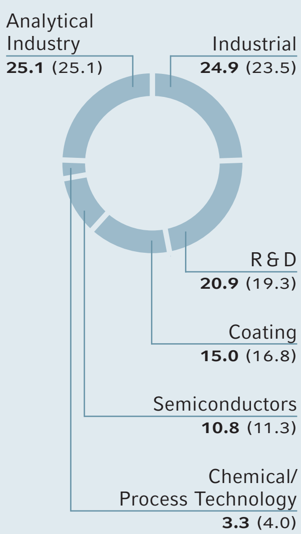
Industrial We continued to expand our position in this heterogeneous market, too, with sales rising by € 7.1 million, or 18.9 %, from € 37.5 million to € 44.6 million. This market's percentage of total sales amounted to 24.9 % (2005: 23.5 %). Steadily rising demands are being placed upon quality needs in connection with the manufacture of industrial products. As a result, vacuum technology is taking on increasing significance. There is a wide variety of applications in the industrial sector, including a broad range of potential applications for our products. Roots pumping stations for steel degassing were delivered to a customer in Poland, for example, and initial sales successes were achieved with the innovative Vacu^2 multi-stage vacuum process for inclusion-free die casting of aluminum automotive engines.

Research & development We were able to further expand our strong position in this market segment. Sales rose faster than had been budgeted, by € 6.7 million, from € 30.8 million to € 37.5 million. Universities and major research centers in Europe, the

United States, Asia and other parts of the world have come to rely upon the quality and dependability of products from PFEIFFER VACUUM. At the same time, we also supply numerous industrial research facilities. And our products are additionally being used in connection with research into renewable energies. During the year covered by this report, we received large orders from major research centers in Switzerland, the United States, the United Kingdom and Germany.

Coating Business with vacuum components for the coating market is project-driven in nature and is thus subject to fluctuations. During the year under review, sales in the subsegment of photovoltaics posted above-average growth, whereas they declined considerably in the storage media subsegment. Totaling € 27.0 million, sales revenues in the coating market remained virtually on the same level as in the previous year (€ 26.7 million). This market segment accounted for 15.0 % of total sales (2005: 16.8 %). There are a wealth of application examples for coating under vacuum, ranging from coating solar cells and applying antireflective coatings on eyeglass lenses to manufacturing architectural glass right through to metalizing CDs and DVDs. Our customers in this market segment utilize our entire product portfolio: Turbo and backing pumps, measurement equipment, components and valves.

Sales by Market 2006 (2005)
(in %)



Semiconductors The semiconductor segment is the most cyclical of all the markets served by PFEIFFER VACUUM. In 2006, sales revenues again posted stronger growth than in the years before, although this increase was moderately diluted by the weakness of the dollar at year-end. Sales advanced by € 1.2 million from € 18.1 million to € 19.3 million. This market segment accounted for 10.8 % of total sales (2005: 11.3 %). In addition to microprocessor fabrication, we also include flat panel display production and computer hard disk coating in the semiconductor market segment.

Chemical and process technology Sales in this market segment decreased by € 0.5 million from € 6.4 million to € 5.9 million in 2006, accounting for 3.3 % of total sales (2005: 4.0 %). The applications in the chemical and process technology market segment are very closely related to those in the industrial system technology segment. Employed first and foremost in this segment are our new dry pumps, as well as our extremely reliable rotary vane and Roots pumps.

Our strong competitive advantage – our independence from individual sales markets – can be seen from the graphic at left.

Profitability, Financial Position and Liquidity

New orders and orders on hand

New orders during the period covered by this report totaled € 175.6 million, up € 12.9 million, or 7.9 %, from the previous year's level of € 162.7 million. € 5.8 million of this increase stemmed essentially from the higher volume of new orders for turbopumps, while € 4.3 million was attributable to a higher level of orders in the backing pump segment. New orders in the service segment increased by € 1.3 million. New orders for systems decreased by € 1.7 million from € 5.5 million to € 3.8 million. As a result of both orders from our customers that involve increasingly shorter delivery time wishes as well as our shorter cycle times, many orders are now being transformed into sales revenues (book to bill) within a matter of weeks.

At the close of fiscal 2006, the book-to-bill ratio – the quotient between new orders and sales – amounted to 0.98 (2005: 1.02). This means that the value of new orders is slightly below the level of sales. Our order backlog of € 25.6 million as of December 31, 2006 (2005: € 29.5 million) affords us sufficient predictability for the initial months of the year 2007. Our most important product family, turbopumps, accounted for 51.2 % of orders on hand.

Earnings development

Cost of sales and gross profit Cost of sales rose to € 91.8 million during the period covered by this report (2005: € 83.9 million), predominantly as a result of our higher sales. The fact that cost of sales increased by only 9.4 % on sales growth of + 12.5 % produced a significantly higher gross profit of € 87.7 million (2005: € 75.6 million). This stemmed from a higher percentage of products with higher margins, as well as from our successes in keeping rising raw materials and energy prices largely under control in 2006. In fact, this enabled us to more than compensate for the impact of higher personnel and pension expenses on cost of sales. Gross margin, the ratio between gross profit and net sales, advanced significantly from 47.4 % in 2005 to 48.8 % for the past fiscal year.

Gross Profit and Gross Margin

	Gross Profit (in € millions)	Gross Margin (in %)
2005	75.6	47.4
2006	**87.7**	**48.8**

MATTHIAS MÄDLER Product Management, with the Company for 19 years

CORINNA WAGENER Management Board Assistance, with the Company for 5 years

Fun with mirrors. Mirror chambers – rooms with numerous mirrors lining their walls – were especially popular during the 19TH century. The fascination of multiple mirrors can still be experienced today in the mirror mazes that can often be found in amusement parks. Yet even a single mirror is capable of reflecting the world, with its things and people, in a way that does not actually exist, playfully showing us how symmetry can look.

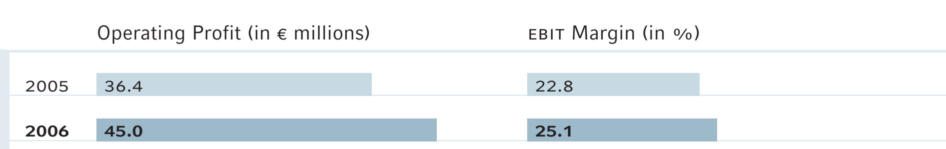
Profitability, Financial Position and Liquidity

Selling, general and administrative costs Totaling € 35.4 million in 2006, selling, general and administrative expenses rose by € 2.9 million, or 9.0 %, over the previous year's level of € 32.5 million. This increase resulted predominantly from higher personnel expenses and from higher administrative expenses in conjunction with the implementation and audit of requirements under the Sarbanes Oxley Act. Selling, general and administrative expenses represented 19.7 % of sales (2005: 20.4 %).

Research and development costs Research & development expenses were up significantly by € 0.6 million from the year before to € 7.3 million, and accounted for 4.1 % of sales (2005: 4.2 %).

Operating profit Because expenses in the individual departments did not rise as strongly as sales revenues, we again succeeded in increasing our operating profit, which totaled € 45.0 million for the past fiscal year as opposed to € 36.4 million in 2005. This represents a significant rise of € 8.6 million, or 23.4 %, as well as the highest level of operating profit in the Company's history. At 25.1 % (2005: 22.8 %), the EBIT margin, the ratio between operating profit and sales, also reached a new record level.

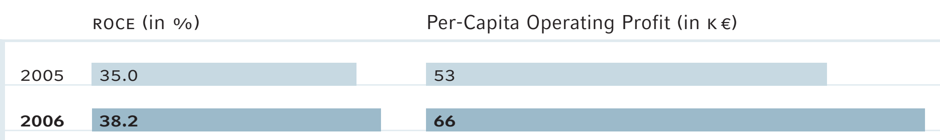
Operating Profit and EBIT Margin



The fact that our profitability is far above average is also demonstrated by the performance indicators of Return On Capital Employed (ROCE) and per-capita operating profit. The Company's ROCE amounted to a strong 38.2 % in 2006. Another encouraging factor was that each and every employee of PFEIFFER VACUUM contributed an average of K € 66 to the Company's operating profit during the past fiscal year.

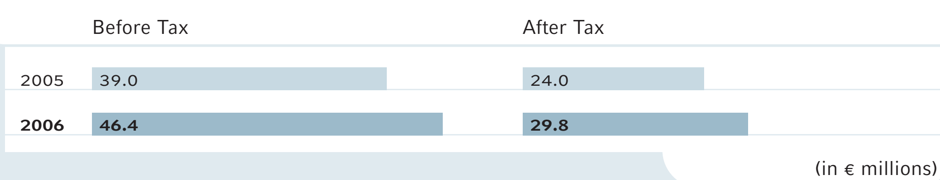
This enabled PFEIFFER VACUUM to achieve results that number among the very best in both Germany and the world.

ROCE and Per-Capita Operating Profit



Financial income The development of the U.S. dollar relative to the euro was the main reason for the € 1.1 million decline in financial income from € 2.5 million in 2005 to € 1.4 million for the past fiscal year. While interest income rose by € 0.5 million to € 2.0 million and interest expense decreased to € 0.1 million, the 2005 exchange rate gain of € + 1.2 million became an exchange rate loss of € – 0.5 million in 2006.

Income from Continuing Operations



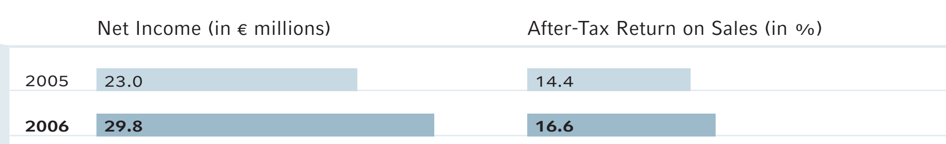
Income taxes Income taxes totaled € 16.6 million in the year under review, as opposed to € 15.0 million in 2005, with € 16.7 million being attributable to current tax expenses and € 0.1 million to deferred tax benefits (2005: € 14.6 million current and € 0.4 million deferred income tax expenses, respectively). This increase of € 1.6 million over the year 2005 was predominantly the result of higher income, which was partly offset by capitalized tax claims. This capitalization also led to a decreased tax rate of 35.8 %, down from 38.4 % in the prior year.

Profitability, Financial Position and Liquidity

Losses from discontinued operations There were no longer any losses from discontinued operations for the past 2006 fiscal year. The year before, an after-tax loss of € 1.0 million had been incurred here, stemming from the Company's withdrawal from DVD business. Nor are any losses from these discontinued operations anticipated in the future.

Net income Totaling € 29.8 million, PFEIFFER VACUUM earned the highest net income in the Company's history. The increase amounted to € 6.8 million, or 29.4 %, over the 2005 level of € 23.0 million. The Company's after-tax return on sales thus amounted to 16.6 % in 2006, on the heels of an outstanding 14.4 % the year before.

Net Income and After-Tax Return on Sales



Financial position

Since no suitable acquisition candidate was again able to be found in 2006, in spite of extensive research and numerous negotiations, the financial position of the PFEIFFER VACUUM Group on the assets side continues to be characterized by cash and cash equivalents. Totaling € 75.4 million (2005: € 61.7 million), they account for 44.7 % of the balance sheet total in the amount of € 168.7 million (2005: 44.2 % of € 139.4 million). The € 29.3 million, or 21.0 %, rise in the balance sheet total stemmed predominantly from the increase in long-term securities (€ + 11.5 million), as well as from the € 1.8 million, or 12.9 %, rise in inventories to € 15.5 million. In this connection, the development of inventories was primarily attributable to expected sales in early 2007. Due to the increase in sales revenues, especially in the fourth quarter of 2006, trade accounts receivable rose from € 22.5 million to € 23.9 million. The development of cash and cash equivalents is shown in the comments on cash flow in the following section.

With shareholders' equity of € 139.0 million as of December 31, 2006, and an equity ratio of 82.4 % (2005: 80.3 %), the liabilities and shareholders' equity side of the balance sheet continues to be dominated by the Company's own equity resources. Shareholders' equity thus increased by € 27.0 million from € 112.0 million in 2005. In addition to the Company's after-tax income in the amount of € 29.8 million and the dividend payment in the amount of € 11.7 million for the 2005 fiscal year, the chief reason for this development were unrealized gains on the valuation of financial investments available for sale in the amount of € 3.5 million after taxes, which were recorded directly in shareholders' equity. In connection with the conversion of convertible bonds under the employee participation program, share capital rose by € 0.5 million and additional paid-in capital by € 7.3 million. As in the year before, there were no material non-current liabilities. There was an increase of € 2.3 million, or 8.4 %, in liabilities, which was predominantly attributable to an increase in provisions.

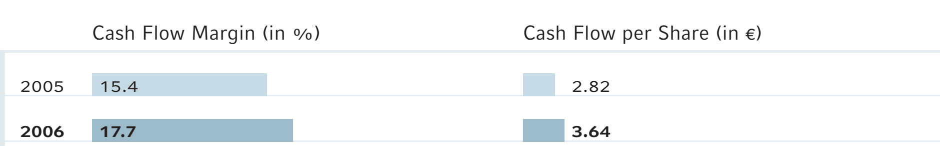
The development and composition of the individual line items in the balance sheet are detailed in the Notes to the Consolidated Financial Statements.

Liquidity and cash flow

Cash flow from operating activities in 2006 amounted to € 31.8 million (2005: € 24.5 million). In particular, this increase of € 7.3 million, or 29.8 %, was attributable predominantly to the increased earnings before taxes (€ + 7.4 million). A total cash usage of € 4.0 million as compared to the prior year is due to the increased inventories and receivables. This development was overcompensated by the € 5.6 million increase in liabilities. In addition, tax payments were up € 0.8 million.

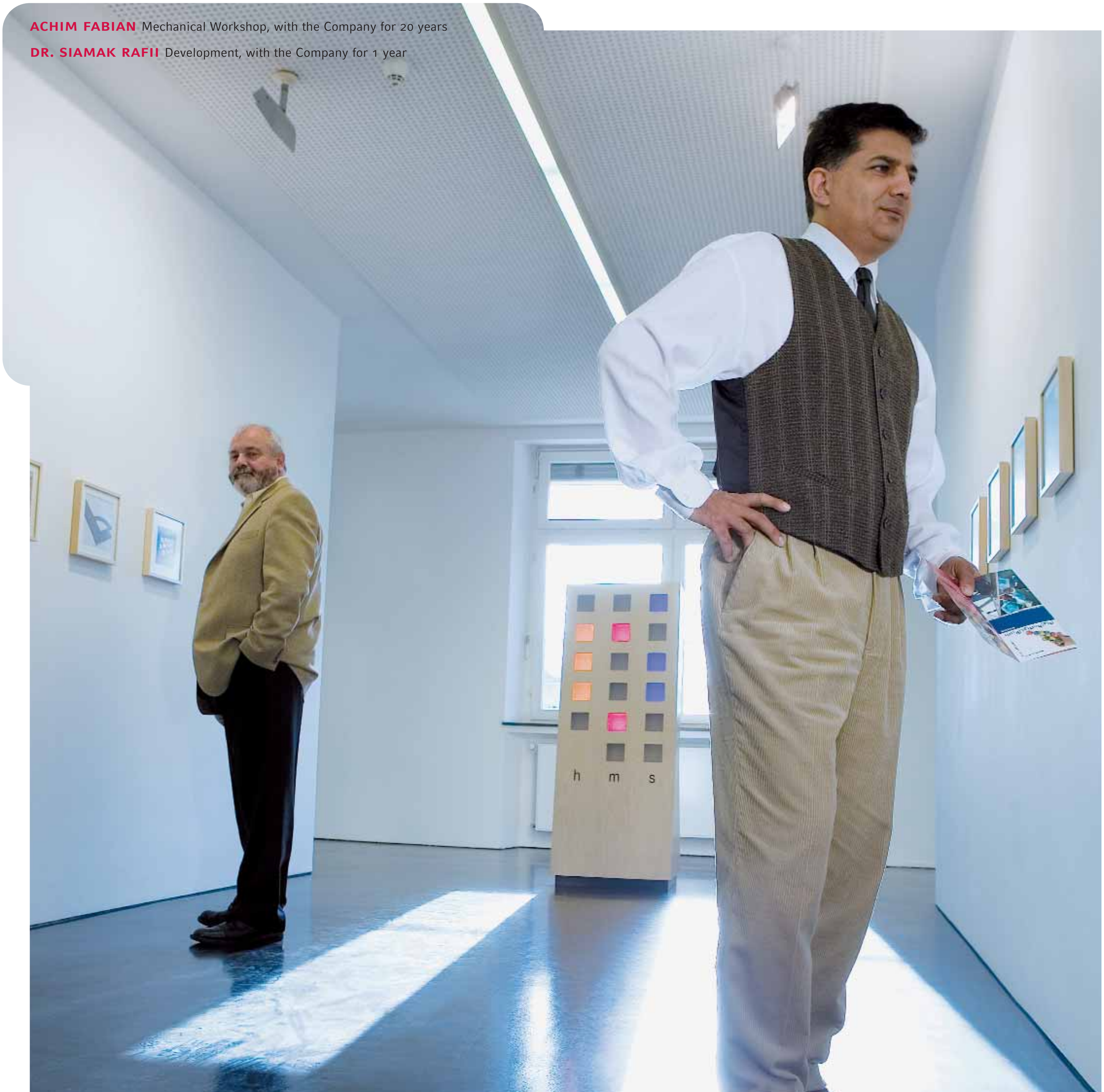
Moreover, PFEIFFER VACUUM'S financial strength is also illustrated by its cash flow margin, i.e. its operating cash flow relative to sales revenues, and by its cash flow per share (operating cash flow relative to the average number of shares outstanding for the year).

Cash Flow Margin and Cash Flow per Share



ACHIM FABIAN Mechanical Workshop, with the Company for 20 years

DR. SIAMAK RAFII Development, with the Company for 1 year



Binary clock. This clock shows the time in binary notation. The right-hand row of lamps indicates the seconds, the center row the minutes and the left-hand row the hours. The uppermost lamp has a value of 1, the second highest a value of 2, the next one 4, followed by 8, 16 and 32. The values of the illuminated lamps are then summed. If a 1 is now written instead of "Lamp ON" and a 0 instead of "Lamp OFF" and they are read from bottom to top, the result is the current time of day in binary code. In this case: 14 hours, 18 minutes and 13 seconds (14 = 01110, 18 = 010010, 13 = 001101).

Net cash used in connection with investing activities in 2006 included purchases of investment securities in the amount of € 9.0 million (2005: € 8.0 million) and capital expenditures in the amount of € 5.6 million (2005: € 2.5 million). This development was offset by net cash provided by redemption of investment securities in the amount of € 3.0 million (2005: € 9.0 million), as well as by net cash provided by proceeds from disposals of fixed assets (€ 0.2 million, 2005: € 0.1 million), resulting in total net cash used in investing activities of € 11.4 million (2005: Net cash used in investing activities of € 1.2 million).

The dividend of € 11.7 million for 2005 – which was paid in June 2006 – was the primary factor that influenced cash flow from investing activities in the amount of € –5.8 million (2005: € –8.0 million). In addition, the share buyback resulted in net cash used in investing activities of € 1.3 million. This was offset by net cash provided in the amount of € 7.3 million from the conversion of convertible bonds. There had been no share buybacks or conversions of convertible bonds in 2005.

In 2006, cash and cash equivalents rose by a total of € 13.7 million, amounting to € 75.4 million on December 31, 2006 (2005: € 61.7 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 € 10.7 million.

Free liquidity was invested in interest-bearing vehicles within the framework of our financial management. A cash management system is in place between the German Companies within the corporate group in order to bundle liquidity. The parent corporation regularly concentrates the free liquidity of the subsidiaries. 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 issuers with high credit ratings are fundamentally acquired. These are typically bond issues from banks or high-grade industrial bond issues. We do not enter into speculative transactions.

Profitability, Financial Position and Liquidity

Capital expenditures and financing

At € 5.6 million, capital expenditures of the corporate group were up significantly from the previous year's level of € 2.5 million and consisted of the following:

Capital Expenditures

	Land and Buildings	Technical Equipment and Machinery	Other Equipment, Factory and Office Equipment	Software	Investment Properties	Total
2005	1.0	0.2	1.0	0.3	–	2.5
2006	**1.4**	**1.7 ***	**1.4**	**0.2**	**0.9**	**5.6**

* Including construction in progress (€ 0.8 million)

(in € millions)

The significant increase in capital expenditures for land and buildings, as well as for investment properties, was predominantly attributable to the acquisition of factory buildings. Prior to their acquisition, these buildings were already being utilized under long-term leases.

The depreciation expense ratio (the ratio between capital expenditures and depreciation expense) totaled 180.2 % for the year under review, as opposed to 77.1 % the year before. This shows that new capital expenditures in 2006 were higher than the loss of value of existing fixed assets, which means that a higher level of fixed assets has been accumulated.

With an equity ratio of 82.4 % (2005: 80.3 %), 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 464 % (2005: 477 %) and continues to symbolize our sound financing concept and our high credit rating.

Current Assets Ratio and Depreciation Expense Ratio

	Current Assets Ratio	Depreciation Expense Ratio
2005	477	77.1
2006	**464**	**180.2**

(in %)

General comments on the course of business

The course of business in 2006 can be termed thoroughly successful. Sales revenues were up sharply, and the absolute level of operating profit set a new record in the Company's history. Viewed in relative terms, our EBIT margin and return on sales also stand at levels that have never before been seen. In the balance sheet, there has additionally been a renewed improvement in the financial performance indicators: Our equity ratio has again risen, along with the level of cash and cash equivalents. We thus again surpassed our outstanding results of the year 2005. These are outcomes that can only be achieved by dedicated, results-driven efforts on the part of all employees throughout the entire corporate group. We take pride in our past successes, while simultaneously working as hard as we can to sustain in the future the high levels we have already achieved.

The PFEIFFER VACUUM Group

Organizational and statutory corporate structure

As of December 31, 2006, the PFEIFFER VACUUM Group comprised a total of 14 companies. The parent corporation, PFEIFFER VACUUM TECHNOLOGY AG, in Asslar, Germany, is publicly traded in Frankfurt am Main and New York. PFEIFFER VACUUM GMBH, in Asslar, Germany, is a wholly-owned subsidiary of PFEIFFER VACUUM TECHNOLOGY AG and plays a key role in the group. Both manufacturing operations for the entire group as well as sales and marketing operations for Germany are organized within this company.

Moreover, there are sales and service organizations in all major industrialized nations. These subsidiaries consist of legally autonomous corporations, predominantly having a legal form that is similar to that of a German limited liability corporation ("Gesellschaft mit beschränkter Haftung" or "GmbH" for short). All eleven operative non-German subsidiaries have self-directed management, which is controlled through the vehicle of agreements on sales and profitability targets. In virtually all subsidiaries, PFEIFFER VACUUM TECHNOLOGY AG is either directly or indirectly the sole shareholder. Only in the case of the subsidiaries in India, Korea and Switzerland do minority interests exist, which pose no obstacle to control within the corporate group due to the small size of their holdings.

No further material equity investments exist within the PFEIFFER VACUUM Group.
In particular, there are no special-purpose entities, joint ventures or associated companies.

Corporate group structure as of December 31:

PFEIFFER VACUUM TECHNOLOGY AG
D-Asslar

- **PFEIFFER VACUUM GMBH**, D-Asslar — 100.0 %
  - **PFEIFFER VACUUM AUSTRIA GMBH**, A-Vienna — 100.0 %
  - **PFEIFFER VACUUM (SCHWEIZ) AG**, CH-Zurich — 99.4 %
  - **PFEIFFER VACUUM FRANCE SAS**, F-Buc — 100.0 %
  - **PFEIFFER VACUUM LTD.**, UK-Newport — 100.0 %
  - **PFEIFFER VACUUM NEDERLAND B. V.**, NL-De Meern — 100.0 %
  - **PFEIFFER VACUUM SCANDINAVIA AB**, S-Upplands Väsby — 100.0 %
  - **PFEIFFER VACUUM INC.**, USA-Nashua — 100.0 %
- **PFEIFFER VACUUM HOLDING B. V.**, NL-De Meern — 100.0 %
  - **PFEIFFER VACUUM BELGIUM N. V.**, B-Temse — 100.0 %
  - **PFEIFFER VACUUM ITALIA S. P. A.**, I-Rho — 100.0 %
  - **PFEIFFER VACUUM (INDIA) LTD.**, IND-Secunderabad — 73.0 %
  - **PFEIFFER VACUUM KOREA LTD.**, KR-Yongin-City, Kyungki-Do — 75.5 %

The PFEIFFER VACUUM Group

Both the subsidiaries as well as the sales and marketing organization in Germany are controlled by means of agreements on annual sales and profitability targets (“Management by Objectives”). These targets are defined each autumn for the coming fiscal year, with due consideration being given to local aspects and market opportunities. During the course of the year, target achievement is monitored by means of detailed target/actual comparisons and variance analyses. The level of target achievement also impacts the variable compensation element of the local management and the German sales and marketing staff.

In countries in which PFEIFFER VACUUM is not represented directly through a subsidiary, sales and service are handled either by PFEIFFER VACUUM GMBH or by local partners. Here, too, sales targets are agreed and measured on the basis of target/actual comparisons.

As of December 31, 2006, the subscribed capital of PFEIFFER VACUUM TECHNOLOGY AG comprised a total of 8,970,600 shares of no-par stock. There are no differing classes of shares, which means that all shares are vested with the same rights, in particular the same voting and dividend entitlement rights. To the best of our knowledge, there are no restrictions relating to voting rights or the transfer of shares. Amendments to the articles of association and bylaws can be resolved by a simple majority of the votes present at the Annual Shareholders Meeting, unless a higher majority is legally mandated. As of December 31, 2006, New York-based Arnhold and S. Bleichroeder Holdings Inc./First Eagle Overseas Fund, as well as Artisan Partners Limited Partnership in Milwaukee, Wisconsin (U.S.A.), each held more than 10 % of the voting rights in the Company.

Through a resolution of the Annual Shareholders Meeting on June 8, 2005, the Management Board is authorized to increase subscribed capital by K € 11,252, or 4,395,300 shares, against contributions in cash and/or kind. This authorization is valid until June 7, 2010, and requires the consent of the Supervisory Board. At the Annual Shareholders Meeting on May 31, 2006, the shareholders authorized PFEIFFER VACUUM to buy back treasury shares. This authorization covers the buyback of a proportionate amount of the Company’s share capital of up to € 2,250,393.60 (879,600 shares, representing 10 % of the share capital at the time the resolution was adopted) and is valid through November 30, 2007. There are 127,076 shares of treasury stock, of which 27,000 shares were bought back under the new authorization and 100,076 shares under prior authorizations.

MARCO ANTONACCI Turbopump Development, with the Company for 5 years

MARTHA PETSCHNIG Customer Service, with the Company for 34 years

Mystifying mirrors. The mirror significantly predates humanity. Because even smooth water can serve as a mirror. We know that the first mirrors to be created by human beings were made from polished brass in Mesopotamia around 8000 B.C. Humans gradually went on to discover the possibilities that are offered by mirrors. During the Middle Ages, for example, mirrors were used to practice the art of fencing – an exercise consisting of a mock fencing match in which the fencer trained against his own image in the mirror. And if multiple mirrors are arranged in the shape of a funnel, the image would appear to emerge from all sides of a virtual, mathematical body.

The PFEIFFER VACUUM Group

Corporate governance report

The recommendations and suggestions contained in the German Corporate Governance Code have already been a firm element of our corporate governance for years, thus eliminating the need for any past or present material adaptations. In December 2006, the Management and Supervisory Boards of PFEIFFER VACUUM TECHNOLOGY AG submitted the Statement of Compliance required in accordance with § 161 of the German Stock Corporation Act ("AktG") and made it permanently available to the shareholders on the Company's Internet website. The following points are in variance with the recommendations of the German Corporate Governance Code:

- No agreement was able to be reached in negotiations with our liability insurance (so-called D & O insurance) carrier to obtain a lower premium if a deductible is arranged. We will therefore not arrange for a deductible. A deductible would not improve the overall motivation and sense of responsibility of the members of the Management and Supervisory Boards. Both the Management and Supervisory Boards work to the benefit of the enterprise.
  (Point 3.8 of the Code)
- The 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 components. Their compensation is stated in the compensation report.
  (Point 5.4.7 of the Code)

Shareholders

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

Management Board

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

Management Board of PFEIFFER VACUUM TECHNOLOGY AG

Wolfgang Dondorf
(CEO)
- Research & Development
- Marketing
- Sales
- Public Relations
- Manufacturing

Manfred Bender
(CFO)
- Finance/Controlling
- Information Technology
- Customer Service
- Logistics
- Human Resources

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

The members of the Management Board work exclusively for PFEIFFER VACUUM and did not hold seats on any supervisory boards in the year 2005. In 2006, Manfred Bender was elected to the supervisory board of Technotrans AG in Sassenberg, Germany. Pursuant to the Company's articles of association and bylaws, members of the Management Board are appointed by the Supervisory Board for a term of office of not more than five years. A renewed appointment or an extension of the term of office, each not to exceed five years, is permissible.

The PFEIFFER VACUUM Group

Supervisory Board

In accordance with statutory regulations and the articles of association and bylaws of PFEIFFER VACUUM TECHNOLOGY AG, the Supervisory Board of this Company comprises a total of six individuals, with four individuals being elected by the shareholders and two individuals by the Company's employees. The regular term of office of all Supervisory Board members ended on May 31, 2006. The shareholder representatives were elected at the Annual Shareholders Meeting on May 31, 2006, while the employees elected their representatives on May 10, 2006. The Supervisory Board submits a slate of nominations for the election of shareholder-representative members of the Supervisory Board. In selecting the nominees, care is taken to assure that the Supervisory Board will at all times be composed of members who possess the requisite expertise, skills, abilities and professional experience, as well as sufficient independence. Both the international business activities of the corporate group as well as potential conflicts of interest are taken into consideration in this regard.

In 2006, the Supervisory Board comprised the following members:

- Dr. Michael Oltmanns (Chairman), Attorney at Law and Tax Advisor
- Prof. Dr. Klaus-Jürgen Kügler (Vice Chairman),
  Dean at the Giessen-Friedberg Technical University (through May 31, 2006)
- Götz Timmerbeil (Vice Chairman effective May 31, 2006),
  Certified Public Accountant and Tax Advisor
- Michael J. Anderson, Investment Banker
- Wilfried Glaum, Business Administrator (effective May 31, 2006)
- Helmut Bernhardt (Employee Representative),
  Development Engineer (effective May 31, 2006)
- Manfred Gath (Employee Representative),
  Chairman of the Employee Council (effective May 31, 2006)
- Edgar Keller (Employee Representative),
  Commercial Staff Member (through May 31, 2006)
- Günter Schneider (Employee Representative),
  Chairman of the Employee Council (through May 31, 2006)

Dr. Oltmanns additionally holds seats on the supervisory boards of the following companies:

– HPC AG, Weinheim, Germany (chairman)
– Jetter AG, Ludwigsburg, Germany (chairman)
– Merkur Bank KGaA, Munich, Germany (vice chairman)
– Scholz AG, Essingen, Germany (chairman)

Collaboration between the Management and Supervisory Boards
The Management and Supervisory Boards collaborate closely at quarterly meetings of the Supervisory Board, as well as at special meetings and in conference calls, if required. The Management Board reports to the Supervisory Board on the general position of the corporate group, including its risk position, through a monthly reporting system established specifically for this purpose.

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

Compensation report
The compensation paid to members of the Management and Supervisory Boards is detailed in the following section.

Compensation paid to members of the Management Board The compensation paid to members of the Management Board is thoroughly discussed in detail and then adopted by the Management Board Committee of the Supervisory Board. This compensation consists of a fixed element and a variable element, as well as non-monetary compensation (company car, accident insurance). The variable element is contingent upon the group's sales, operating profit or loss and after-tax income. In addition to a fixed salary element in the amount of K€ 334 and a variable salary element in the amount of K€ 457, the statement of income also records non-monetary compensation in the amount of K€ 11 for Wolfgang Dondorf, Chief Executive Officer and Chairman of the Management Board. Manfred Bender, Chief Financial Officer and member of the Management Board, received a fixed salary element of K€ 150, a variable salary element of K€ 164 as well as K€ 10 in non-monetary compensation. Wolfgang Dondorf has received a pension commitment in the amount of 60 % and Manfred Bender 20 % of their last fixed salary elements. In addition, pension commitments have also been made to former members of the Management Board. The net pension expenses for the year attributable to the Chief Executive Officer and Chairman of the Management Board amounted to K€ 188, while the statement of income records K€ 95 for former members of the Management Board. An addition has been made to PFEIFFER VACUUM TRUST E.V. in the amount of € 492.

HELMUT WEININGER Sales Germany, with the Company for 4 years

Fibonacci numbers. In the year 1202, this famous mathematician from Pisa defined the numerical sequence that is named after him: 1, 1, 2, 3, 5, 8, 13, 21, 34, 55, 89 ... Under this system, each number is the sum of the two preceding numbers. So the next number in this sequence is 55 + 89 = 144. It is amazing how often Fibonacci numbers occur in nature. In a cactus, for example: Its thorns are not arbitrarily arranged, but form spirals with left- and right-hand twists. If the right-twisted and left-twisted spirals are counted, the numbers 8 and 13 result. The same numbers also apply for a pine cone, by the way. The cones from a fir tree, on the other hand, produce the numbers 5 and 8 in the form of 5 right-handed and 8 left-handed spirals on each cone.

A total net advance payment to PFEIFFER VACUUM TRUST E. V. in the amount of K€ 145 exists for current and former members of the Management Board, of which K€ 96 is attributable to the Chief Executive Officer.

Compensation paid to members of the Supervisory Board The members of the Supervisory Board receive fixed compensation, which is stipulated by the Annual Shareholders Meeting. The statement of income records compensation in the amount of K€ 45 for the year 2006 for Dr. Michael Oltmanns, as the Chairman of the Supervisory Board, while Supervisory Board compensation in the amount of K€ 30 was incurred for Götz Timmerbeil as the new Vice Chairman. Expense of K€ 15 was recorded for Michael Anderson in fiscal 2006. New Supervisory Board members Helmut Bernhardt, Manfred Gath and Wilfried Glaum received compensation in the amount of K€ 9 each. The expense recorded for retired Vice Chairman Prof. Dr. Klaus-Jürgen Kügler amounted to K€ 12, while the statement of income records K€ 6 each for retired Supervisory Board members Edgar Keller and Günter Schneider.

The compensation is paid on a pro-rata basis for members of the Supervisory Board who were newly elected or retired during the course of the year under review.

Negative statement No further payments in addition to the above-indicated compensation elements were paid to members of the Management or Supervisory Boards during the year covered by this report. In particular, no stock options were granted, no loan entitlements were established and no guaranty commitments were issued. Nor do any special agreements exist in connection with the termination of the activities of members of the Management or Supervisory Boards.

Transparency

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

The PFEIFFER VACUUM Group

The Management Board's decision to change to International Financial Reporting Standards (IFRS) for fiscal 2006, and thus one year earlier than required, should also be viewed as a way of assuring the most efficient possible means of disseminating information. This assures that the financial position of the PFEIFFER VACUUM Group will be able to be compared at any time with other (publicly traded) companies in Europe.

Although as a foreign issuer on the NYSE the regulations under the U.S. Sarbanes Oxley Act (SOA) were not yet fully mandatory for us in fiscal 2006, we nevertheless subjected ourselves to certification under SOA by our independent auditor. The certification audit did not produce any objections. The ability to efficiently satisfy these strict and sometimes highly formalistic requirements relating to the Company's internal process and risk management systems was made possible only through a joint effort on the part of everyone in the company who was involved.

Accounting and auditing

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

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

Our people

On December 31, 2006, the corporate group employed a total of 684 people worldwide, representing a decrease of seven employees or 1.0 %. On annual average, 685 employees were employed worldwide (2005: 691). Per-capita sales increased to K € 262 (2005: K € 231).

Employees

	Germany	Europe*	United States	Asia	Total
2005	510	96	59	26	691
2006	**504**	**98**	**56**	**26**	**684**

* Excluding Germany
Dec. 31

Personnel expenses in the year 2006 totaled € 47.2 million, as opposed to € 44.0 million in 2005.

Training and qualifications

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

We view the training of subsequent generations as one of our most important tasks. Consequently, we train industrial mechanics and industrial commercial operations specialists at our manufacturing facility in Asslar. A training workshop equipped with cutting-edge machine tools is available for this purpose. In 2006, we provided a total of 30 training slots (2005: 31) – an investment in the future of our Company. Moreover, PFEIFFER VACUUM is also participating in the “Studium Plus” work-study educational program under a collaborative effort between the Giessen-Friedberg Technical University and the chamber of industry and commerce. University openings for a total of seven business engineering, mechanical engineering and SME management students are currently being sponsored. During the year under review, two graduates of this educational program were again able to be offered jobs.

The PFEIFFER VACUUM Group

Working in close collaboration with general and technical universities, we are familiarizing the new generation of professionals with life in a modern industrial enterprise by making jobs available for interns and awarding contracts to postgraduate thesis candidates.

Professional and Vocational Qualifications

	2006	2005
Development and Manufacturing		
College and university graduates	62	65
Employees with specialized training	241	245
Employees without specialized training	47	48
Trainees	20	20
Administration, Sales and Marketing		
College and university graduates	113	113
Employees with specialized training	181	179
Employees without specialized training	10	10
Trainees	10	11
Total	**684**	691

Dec. 31

Attractive pay concepts

In 2006, all employees again shared in the Company's success in the form of individual pay bonuses. A growth-based bonus system provides additional incentive to the staff of the sales organization. Executives at corporate headquarters have a variable income element that is linked to the achievement of the Company's operating profit target and the attainment of personal targets.

Old-age pensions

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

CHRISTOPHER RIEDL Trainee, with the Company for 2 years
ANNELI BÜTTNER Purchasing, with the Company for 25 years

Reflection turns it the other way around. When we look into a mirror, we see ourselves in a way we are otherwise never seen. The right half of our face becomes the left half, and vice versa. Just like mirror writing, which is not written from left to right, but in the opposite direction. Mirror writing was often used in the past as a secret code, and we also know that Leonardo da Vinci frequently employed it. By the way, many people are gifted by nature with this "reversal." Without ever having practiced it beforehand, they are able to spontaneously write to the left in mirror image with their left hand. Try it some time!

The PFEIFFER VACUUM Group

Employees who joined the Company prior to June 1996 are additionally entitled to a Company-funded old-age pension. Since year-end 2003, PFEIFFER VACUUM'S pension obligations under agreements relating to the Company-funded old-age pension have been held in an asset management trust in the form of a registered association, PFEIFFER VACUUM TRUST E. V. Various pension plans that conform to country-specific conditions are in place at the sales subsidiaries. Information relating to the development of the pension assets is contained in Note 20 of the Notes to the Consolidated Financial Statements.

During the year covered by this report, ten employees took advantage of the opportunity to gradually transition into retirement under a part-time contract for near retirees (2005: 8). This enabled us to offer trainees permanent jobs upon passing their final examination.

Age Structure of the Company

	2006	2005
Under 30	86 (13 %)	81 (12 %)
30 to 50	414 (61 %)	431 (62 %)
Over 50	184 (26 %)	179 (26 %)
Total	**684 (100 %)**	691 (100 %)

Dec. 31

Social responsibility

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

Labor relations and codetermination

The Company pays employees at its German location either on the basis of the general collective-bargaining agreement for the metalworking and electrical engineering industries or at higher pay scales. The codetermination principles are observed in a spirit of trustful collaboration between management and Employee Council. Effective March 1, 2006, the new single-status payscale agreement ("ERA") instituted under the collective-bargaining agreement was introduced at corporate Headquarters in Asslar. The ERA is a consistent payscale framework system for blue collar, technical and business white collar employees and eliminates differentiation between wage and salary groups.

Research & development

Our technicians, physicists and engineers are hard at work in modern laboratories helping to develop new products that will enable even better vacuum to be generated and measured in even less time. 75 engineers, physicists and technicians work in research & development operations at PFEIFFER VACUUM to develop new products and evolve our existing product portfolio (2005: 76). We also collaborate closely with universities and with companies in Germany and other countries that possess key technologies. PFEIFFER VACUUM regularly sponsors postgraduate thesis work in the field of R & D and offers internships for physics or engineering students.

In 2006, research & development expenditures totaled € 7.3 million, as opposed to € 6.7 million in 2005, resulting in a research & development ratio of 4.1 % of total sales (2005: 4.2 %).

A significant increase in patent applications and patents granted demonstrates the Company's innovative strength. Eighteen new patent applications were filed in the year 2006 (2005: 11). In addition, 20 patents were granted on pending applications (2005: 6). We hold a total of over 80 fundamental patents worldwide, as well as more than 110 patent families with nearly 400 national intellectual property rights.

The PFEIFFER VACUUM Group

New products in fiscal 2006

Turbopumps During the year under review, turbopumps were introduced that were required by our customers in the field of plant engineering, in particular. The basis for these new products consisted of our SplitFlow™ turbopump. These kinds of projects produce turbopumps whose internal and external designs are precisely tailored to our customers' vacuum technology and geometry needs. This simplifies integration of our products into customer systems and makes optimal use of the pumps' vacuum performance.

Backing pumps Our portfolio of dry diaphragm pumps was expanded during the year under review to include the MVP 006, a pump with a low pumping speed. This pump is characterized by its highly compact dimensions, light weight, quiet operation and low ultimate pressure. These properties make this new pump outstandingly suited for integration into ever-smaller analysis systems and turbopumping stations, with the mobility of these systems, in addition to their compactness, taking on steadily increasing significance.

Working together with die casting specialists, we made a crucial advance in die casting technology. The purpose of vacuum in a die casting system is to evacuate a given volume of air from the mold cavity and the shot sleeve within the shortest possible period of time. In contrast to conventional methods, with our new Vacu^2 multi-stage vacuum process the shot sleeve and mold cavity are evacuated in two stages. This process significantly reduces die casting process costs and enables unnecessary rejects to be avoided.

Mass spectrometers The new Quadera™ mass spectrometer software represents what is currently the best of breed for operating and analyzing Quadrupole mass spectrometers. This software affords the user intuitive operation with all of the advantages offered by modern PC operating systems. Recurring measurement tasks can be automated with the aid of a modular concept.

Leak detectors During the past fiscal year, the SmartTest was made even more attractive for customers by providing additional options. With the selection options that are now available, this leak detector can be configured for all leak detection tasks. Its new software affords simple operation of the device and analysis of the leak detection results. It also enables data to be stored for quality assurance under ISO 9001.

Vacuum measurement equipment PFEIFFER VACUUM has responded to the growing demand for Fieldbus-compatible transmitters by bringing a variety of converters to market. The DigiLine™ series of digital vacuum measurement equipment was rounded out with DeviceNet converters. This bus system is highly popular in the United States and enables the transmitters to be activated directly by the plant control system.

The ModulLine series of vacuum measurement equipment was expanded to include a Profibus interface. This option enables data from particle accelerators, for example, to be read out and networked over vast distances.

Valves PFEIFFER VACUUM brought to market a new series of dosing valves for controlled admittance of gases into a vacuum chamber. This enables customers to optimize their systems by adroitly staggering the gas flow.

Purchasing

Efficient and cost-oriented sourcing of goods and services is a key basis for a company's profitability. Our activities here are characterized by ongoing optimization of our purchasing processes, access to new purchasing sources and the best possible prices combined with a high degree of flexibility and quality. Maintaining intensive contacts with existing and potential suppliers both in Germany and in other countries, along with collaboration in a spirit of partnership, assure a good and trustful relationship with our suppliers. Only this method of vendor management and the way in which we collaborate leads to sustained success for both sides. PFEIFFER VACUUM'S involvement of suppliers in the product creation process early on, in particular in connection with categories of goods that are highly demanding in terms of technology, additionally enables us to utilize our suppliers' development competence during early phases of the development work. This affords us the opportunity of creating innovative products at optimal cost in shorter development cycles, with make-or-buy decisions being taken into consideration. Depending upon the focus of the task in question, our Development, Purchasing, Logistics, Quality and Manufacturing operations are involved to a greater or lesser extent in the joint process. And, finally, the fact that all products are manufactured exclusively at our facility in Asslar, Germany, enables us to centralize all major purchasing processes and thus achieve economies of scale. Additionally, electronic handling of purchasing processes is a further major element in our internal process optimization.

The PFEIFFER VACUUM Group

Sustainability

We do not view any contradiction between sustainability in the Company and in society and economic activity. Responsibility toward resources, sustainability in product development, outstanding product quality, safeguarding our people at their workplaces and social commitment are the cornerstones of visionary, entrepreneurial stewardship and major elements of the corporate culture at PFEIFFER VACUUM.

Since the launch of this index in 2003, PFEIFFER VACUUM continues to be contained in the Kempen/SNS Smaller Europe SRI Index. This index is the first sustainability index for smaller European companies. Only recently, we again satisfied the strict criteria under this index for socially and environmentally responsible behavior.

Environmental protection

All environmental factors, such as electrical, gas and water consumption as well as waste disposal, are regularly monitored and assessed. We achieved our targets for reducing the consumption of materials and energy. During the course of the fiscal year, seven environmental audits were conducted (2005: 9). The items that were audited included compliance with legal requirements in handling, storing and disposing of hazardous substances. No material variances were identified. In addition, the employment of reusable packagings was able to be further expanded. One major customer from the field of plant engineering receives all products in reusable packaging, thus eliminating the need for disposal and the environmental problems this involves.

The Company's environmental management system was reviewed by an independent certifier in connection with a follow-up audit in November 2006. We passed the audit without any variances, with the certificate under ISO 14001:2004 retaining its validity through September 2007.

Improved thermal insulation on various factory building roofs and installation of a new heating system in the manufacturing buildings (ceiling-mounted radiant heating) are planned for 2007. This will enable the Company to considerably reduce its energy consumption, and thus contribute to lowering CO_2 emissions. A review will additionally be conducted to determine whether a further reduction in energy consumption and energy costs can be achieved through the employment of a cogeneration plant.

Sustainability in product development

Environmental design engineering requirements are applied in developing new products. This relates to both the materials that are used, including their recyclability, as well as to such customer-specific environmental aspects as reducing the consumption of the energy needed to operate pumps. In particular, special attention is being paid here to avoiding hazardous materials in electrical and electronic equipment.

Quality

Our quality management system was reviewed by an independent certifier in November 2006 in connection with a follow-up audit under ISO 9001:2000. The audit was passed without any variances.

Within the framework of our quality management system, all business processes are continuously scrutinized and enhanced. Eight internal quality audits were conducted in 2006 for this purpose (2005: 9), with no material variances being identified. In addition, in the year under review we received an award from one of our largest customers for our outstanding product quality and on-time deliveries. Internal processes are documented and available to employees in our quality handbook. In parallel to this, quality goals are defined, assessed and quantified, with compliance being measured. Continuous improvement processes are an element of all of the Company's processes, from the development of a product right through to its employment by the customer. The way product audits are conducted was redesigned in 2006 and integrated into the continuous improvement process.

In 2006, our on-time delivery status was sustained at a high level. This, too, documents the success of our ongoing efforts aimed at process improvement, because clearly defined processes are ultimately a major aspect in on-time handling of customer orders. At the same time, we surpassed our goal of reducing warranty claims significantly, which had been agreed in 2005.

The golden ratio. Euclid (325–270 B.C.) was the first to describe this ratio between two numbers, which is equal to around 1:1.618 and was first called the golden ratio in 1835 in a mathematical textbook by Martin Ohm. This ratio occurs in nature, is characterized by numerous interesting mathematical properties and is considered to be the embodiment of esthetics and harmony. It can also be seen in many works of art, in which significant characteristics of the picture are arranged in such a manner as to divide the picture in the golden ratio. Expressed mathematically, two lengths possess the golden ratio if the longer is to the shorter as the sum of the two is to the longer. This ratio is also denoted by the Greek letter φ (phi).

Job safety

In 2006, a total of 17 job safety audits were conducted (2005: 24), ten of them together with the plant medical service and the Employee Council (2005: 10). The Company's job safety organization and job safety measures were reviewed in October 2006 in connection with the audits under ISO 9001:2000 and ISO 14001:2004. No deficiencies were found.

Social responsibility

PFEIFFER VACUUM also lives up to its social responsibility outside the Company. It awards grants to aid the work of facilities for children and the disabled, and also sponsors regional sports clubs. Schools and universities are supported through both cash and non-cash donations. For over 40 years, we have been one of the two companies that sponsor the prestigious Röntgen Prize, which is awarded annually at Justus Liebig University in Giessen in recognition of outstanding research work performed by the coming generation of scientists.

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 areas of risk management within the individual departments and have put in place the necessary procedures, early warning and monitoring systems. We take the risk factors we have defined into consideration in our annual budgeting process. The budget and our current business position are comprehensively deliberated with the Supervisory Board. Moreover, the Supervisory Board also receives monthly overviews of our financial results by region, as well as further reports from the Management Board.

Overall economic risks, industry risks

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

PFEIFFER VACUUM has long been highly successful in winning new customers from a variety of industries in order to avoid dependencies. Accounting for 10.8 % of total sales, we have only limited risk exposure from the semiconductor industry. 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 products. In fiscal 2006, we spent a total of € 7.3 million on research & development (2004: € 6.7 million). This correlates to 4.1 % 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 quality high-tech 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 € 41.3 million, or 23.0 %, of our sales, this applies in particular with respect to the exchange rate of the U.S. dollar.

PFEIFFER VACUUM 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.

Risk Report

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. With an ongoing low attrition rate, 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 2007 and Outlook

Early 2007

There have not been any significant changes in the Company's position or the industry environment since the beginning of the 2007 fiscal year.

Outlook

The growth rate of the world economy that leading economic experts currently anticipate for the year 2007 stands at 4.5 % and will thus weaken relative to the year 2006. This global slowdown in the pace of economic growth is anticipated as a result of weaker economic forecasts in the United States, in particular. In spite of the likelihood of interest rate cuts on the part of the U.S. Federal Reserve Bank, the United States is expected to see growth of only 2.7 %. Gross domestic product in Germany is anticipated to grow at 1.6 %, in part due to the negative impact of the value added tax hike.

We expect to see 2007 sales revenue growth from within develop at more or less the level of the past fiscal year. This is undoubtedly a highly ambitious goal, in particular when the object is to outpace anticipated growth in the vacuum industry. What essentially encourages us in this connection are our numerous highly promising negotiations with our customers on future projects. We are of the opinion that these negotiations offer the best prerequisites for achieving this goal. As a result of sales and marketing activities in Eastern and Southeastern Europe, as well as expansion of our operations in South America, we expect to see rising sales revenues here, as well. Moreover, our order backlog as of December 31, 2006, and the development of sales during the initial months of the year 2007 are encouraging factors that suggest we are on the right track.

Given a high level of sensitivity toward efficient corporate processes and pronounced cost-consciousness throughout all areas of the Company, we continue to assume that our overall EBIT margin will remain at a high level between 23 and 24 %. The consolidation of sales support activities for the Cologne-Aachen region of Germany and for the Benelux countries of Belgium, Luxembourg and the Netherlands into one region, "Euregio," was launched in late 2006 and will benefit us in this connection. The objective here is to cut administrative costs, in particular, by consolidating certain departments and reducing redundancies.

Reflection technology. Regardless of the location from which the viewer looks into a three-piece angled mirror, he always sees himself. The reason from the standpoint of mathematics and physics: Every ray of light that strikes an angled mirror of this type will be reflected overall in such a manner that it reflects back in parallel. An idea that has many uses. This is the principle of the "cat's-eye," as the reflector at the back of a bicycle is also called.

Early 2007 and Outlook

In connection with the further optimization of our business processes, we will expand and reorganize manufacturing capacities. The objective is to reduce production costs through new structures in our manufacturing operation. The funding for this investment will come from the cash generated by current business operations. It will not be necessary to borrow money for this purpose.

Identifying market needs early on and responding to them with customer-driven new developments are fundamental prerequisites for being able to continue to remain competitive in the future and broadening market share. Research & development expenditures thus represent an investment in the future development of our sales, and will therefore continue to remain at a high level.

The Management and Supervisory Boards want to enable our shareholders to again participate disproportionately in the Company's success in fiscal 2006. Under the proposed appropriation of retained earnings, subject to the approval of the Annual Shareholders Meeting, the dividend will be € 2.50 per share of no-par stock (2005: € 1.35); this is an increase of approximately 85 %. 74.6 % of the Company's net income of € 29.6 million that is eligible for distribution to the shareholders of PFEIFFER VACUUM TECHNOLOGY AG would thus be disbursed.

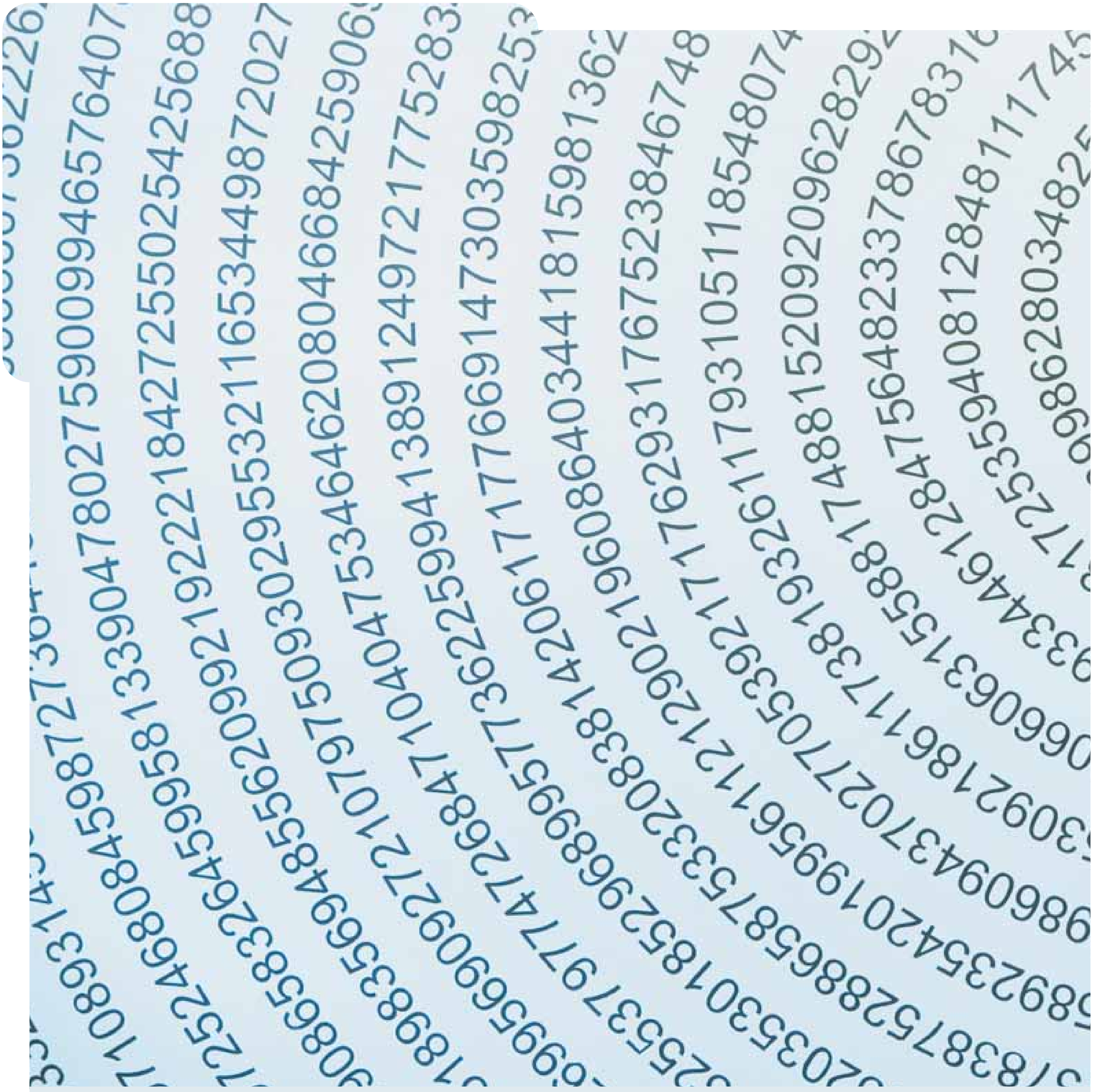
Distribution Rate, Dividend per Share and Dividend Yield

	Distribution Rate* (in %)	Dividend per Share (in €)	Dividend Yield** (in %)
2005	51.2	1.35	2.9
2006	**74.6**	**2.50**	**3.9**

* Ratio between the (proposed) distribution for the respective year and after-tax income for that year
** Ratio between the (proposed) dividend per share and the trading price (Deutsche Börse) at the close of the fiscal year

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.

Our expectations for the year 2007 are undoubtedly high. Yet as an innovative, market-driven and profitable company with well trained, educated and motivated people, we are confident of being able to achieve the goals that we have set for ourselves.



The circle number π = 3.1415... This is a natural constant that denotes the ratio between a circle's circumference and its diameter. Everyone is familiar with it from mathematics lessons. And the symbol for it can also be found on every pocket calculator. Yet nobody knows what it actually is. In fact, this famous number does not stop after three places, does not stop after 3,000 or even 30,000 places, but is of infinite length. The 1.24 trillion places after the decimal that we know today were only discovered in 2002 by Professor Yasumasa Kanada from the University of Tokyo. There is no location at which the sequence of numerals begins anew or at which individual sequences of numerals periodically repeat themselves. Yet you can discover some amazing things, whether it's today's date, your own telephone number or the last 6 winning Lotto numbers – given infinite possibilities, every conceivable sequence of numerals will occur at some point or another.

KATIA WITTING-ALVITES Controlling, with the Company for 1 year

CONSOLIDATED FINANCIAL STATEMENTS

Statements of Income

	Note	**2006**	2005
Net sales	24	179,484	159,517
Cost of sales		–91,829	–83,932
Gross profit		**87,655**	75,585
Selling and marketing expenses		–22,469	–20,028
General and administrative expenses		–12,909	–12,436
Research and development expenses		–7,320	–6,680
Operating profit	24	**44,957**	36,441
Interest income		1,996	1,496
Interest expenses		–98	–156
Foreign exchange gains/losses		–463	1,209
Income before income taxes		**46,392**	38,990
Income taxes	18	–16,606	–14,981
Net income from continuing operations		**29,786**	24,009
Net results from discontinued operations, net of tax	27	–	–994
Net income		**29,786**	23,015
Thereof attributable to:			
PFEIFFER VACUUM TECHNOLOGY AG shareholders		**29,624**	22,907
Minority interests		162	108
Earnings* per share (in €)	26		
Total earnings per share, basic/diluted		3.39	2.64
Net earnings from continuing operations, basic/diluted		3.39	2.75

* Attributable to PFEIFFER VACUUM TECHNOLOGY AG shareholders

(in K €)

Balance Sheets

	Note	**2006**	2005
Assets			
Intangible assets	5	319	333
Property, plant and equipment	6	22,901	21,301
Investment properties	7	1,838	1,093
Investment securities	8	17,535	6,000
Prepaid pension cost	20	145	–
Deferred tax assets	18	5,585	6,430
Other assets	11	1,822	905
Total non-current assets		**50,145**	36,062
Inventories	9	15,520	13,747
Trade accounts receivable	10	23,934	22,481
Other accounts receivable	11	1,801	1,259
Prepaid expenses		449	872
Investment securities	8	1,000	3,000
Other current assets	25	467	334
Cash and cash equivalents	12	75,354	61,651
Total current assets		**118,525**	103,344
Total assets		**168,670**	139,406
Shareholders' equity and liabilities			
Equity			
Share capital	13	22,965	22,504
Additional paid-in capital	13	13,305	5,819
Retained earnings	14	104,269	86,377
Other equity components	15	1,520	−833
Treasury shares	16	−3,722	−2,438
Equity of PFEIFFER VACUUM TECHNOLOGY AG shareholders		**138,337**	111,429
Minority interests		635	569
Total equity		**138,972**	111,998
Deferred tax liabilities	18	308	820
Convertible bonds	19	–	461
Provisions for pensions	20	3,859	4,476
Total non-current liabilities		**4,167**	5,757
Trade accounts payable	21	4,428	3,184
Other accounts payable	21	2,571	2,659
Provisions	22	13,564	11,315
Income tax liabilities		3,420	3,118
Customer deposits		1,548	1,375
Total current liabilities		**25,531**	21,651
Total shareholders' equity and liabilities		**168,670**	139,406

Dec. 31

(in K €)

Statements of Shareholders' Equity

		Equity of PFEIFFER VACUUM TECHNOLOGY AG Shareholders							
	Note	Share Capital	Additional Paid-in Capital	Retained Earnings	Other Equity Components	Treasury Shares	Total	**Minority Interests**	**Total Equity**
Balance on January 1, 2005		22,504	5,327	71,291	–2,624	–2,438	94,060	454	94,514
Currency changes		–	–	–	2,177	–	2,177	80	2,257
Net results from cash flow hedges	25	–	–	–	–386	–	–386	–	–386
Earnings recorded directly in equity		**–**	**–**	**–**	**1,791**	**–**	**1,791**	**80**	**1,871**
Net income		–	–	22,907	–	–	22,907	108	23,015
Total earnings for the year		**–**	**–**	**22,907**	**1,791**	**–**	**24,698**	**188**	**24,886**
Dividend payments	14	–	–	–7,821	–	–	–7,821	–73	–7,894
Employee participation program	19	–	492	–	–	–	492	–	492
Balance on December 31, 2005		**22,504**	**5,819**	**86,377**	**–833**	**–2,438**	**111,429**	**569**	**111,998**
Revaluation available-for-sale securities	8	–	–	–	3,485	–	3,485	–	3,485
Currency changes		–	–	–	–1,587	–	–1,587	–26	–1,613
Net results from cash flow hedges	25	–	–	–	455	–	455	–	455
Earnings recorded directly in equity		**–**			**2,353**		**2,353**	**–26**	**2,327**
Net income		–	–	29,624	–	–	29,624	162	29,786
Total earnings for the year		**–**	**–**	**29,624**	**2,353**	**–**	**31,977**	**136**	**32,113**
Dividend payments	14	–	–	–11,732	–	–	–11,732	–70	–11,802
Employee participation program	19	–	232	–	–	–	232	–	232
Share buyback	16	–	–	–	–	–1,284	–1,284	–	–1,284
Conversion of convertible bonds	13, 19	461	7,254	–	–	–	7,715	–	7,715
Balance on December 31, 2006		**22,965**	**13,305**	**104,269**	**1,520**	**–3,722**	**138,337**	**635**	**138,972**

(in K €)

Statements of Cash Flow

	Note	2006	2005
Earnings before taxes		46,392	38,990
Adjustment for interest income/interest expense		– 1,898	– 1,340
Interests received		1,748	1,269
Interests paid		– 101	– 153
Income taxes paid		– 15,444	– 14,677
Depreciation/amortization	5, 6, 7	3,114	3,202
Non-cash personnel expenses (convertible bonds)	19	232	492
Changes in inventory reserves		19	693
Provisions for doubtful accounts		– 363	104
Income from disposals of fixed assets		– 21	– 56
Changes in net cash from discontinued operations		–	– 504
Effects of changes in assets and liabilities:			
Inventories		– 2,092	– 158
Receivables and other assets		– 2,346	– 279
Provisions including pensions and income tax liabilities		881	– 2,726
Payables, other liabilities		1,674	– 356
Net cash provided by operating activities		**31,795**	24,501
Proceeds from disposals of fixed assets		162	134
Proceeds from disposals of discontinued operations		–	171
Total capital expenditures	5, 6, 7	– 5,610	– 2,470
Purchase of investment securities	8	– 8,985	– 7,998
Redemptions of investment securities	8	3,000	9,000
Net cash used in investing activities		**– 11,433**	– 1,163
Dividend payments	14	– 11,732	– 7,821
Redemptions of convertible bonds		–	– 77
Dividend payments to minority shareholders		– 70	– 73
Share buyback	16	– 1,284	–
Conversion of convertible bonds	19	7,254	–
Net cash used in financing activities		**– 5,832**	– 7,971
Effect of foreign exchange rate changes on cash and cash equivalents		– 827	1,298
Net increase in cash and cash equivalents		**13,703**	16,665
Cash and cash equivalents at beginning of year		61,651	44,986
Cash and cash equivalents at end of year	12	**75,354**	61,651

(in K €)

Notes

Remarks relating to the Company and its Accounting and Valuation Methods

1. General remarks relating to the Company

The parent company within the PFEIFFER VACUUM Group ("the Company" or "PFEIFFER VACUUM") is PFEIFFER VACUUM TECHNOLOGY AG, domiciled at Berliner Strasse 43, 35614 Asslar, Germany. PFEIFFER VACUUM TECHNOLOGY AG is a stock corporation organized under German law and recorded in the Register of Companies at the Local Court of Wetzlar under Number HRB 44. The Company is listed on the Deutsche Börse Stock Exchange in Frankfurt am Main, Germany, where it is included in the TecDAX index. Additionally, the Company's American Depositary Receipts (ADRs) are traded on the New York Stock Exchange (NYSE) in the United States.

PFEIFFER VACUUM is one of the leading full-line vacuum technology manufacturers, offering custom solutions for a wide range of needs in connection with the generation, control and measurement of vacuum. The products developed and manufactured at the Company's 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 custom vacuum systems and components.

PFEIFFER VACUUM markets and distributes its products through its own network of sales companies and independent marketing agents. Moreover, there are service support centers in all 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 for the fiscal year ended December 31, 2006, have been prepared for the first time in accordance with International Financial Reporting Standards (IFRS) and the interpretations of the International Financial Reporting Interpretations Committee (IFRIC) as applicable in the European Union (EU). This includes the International Accounting Standards (IAS), which continue to retain their validity, and the interpretations of the Standing Interpretations Committee (SIC). The PFEIFFER VACUUM Group has not been impacted by the fact that the EU has not yet endorsed all published IFRS or IAS. Those standards that have been published but whose application is not yet mandatory have not been adopted at an earlier stage. The Notes to the Consolidated Financial Statements additionally include the information required by § 315a, Sub-Para. 1, in connection with § 315a, Sub-Para. 3, of the German Commercial Code ("HGB").

The reporting reflects all standards and interpretations whose application was mandatory at the close of the fiscal year. The transition to IFRS from the previously employed United States Generally Accepted Accounting Principles ("U.S. GAAP") was performed in conformity with IFRS 1, "First-time adoption of International Financial Reporting Standards."

The Consolidated Financial Statements are prepared essentially in accordance with the acquisition cost principle. However this does not include derivative financial instruments and financial investments available-for-sale, which are carried at fair values. PFEIFFER VACUUM prepares its Consolidated Financial Statements in euros (€). Unless otherwise indicated, the presentation is in thousands of euros (K €).

2. Application of amended or new standards

On August 18, 2005, the International Accounting Standards Board (IASB) issued IFRS 7, "Financial Instruments: Disclosures." IFRS 7 replaces former IAS 30, "Disclosures in the Financial Statements of Banks and Similar Financial Institutions," and includes all provisions from IAS 32, "Financial Instruments: Presentation," relating to disclosure in the notes. In this connection, amendments and supplements were made to IAS 1, "Presentation of Financial Statements," with regard to equity disclosures. IFRS 7 leads to a fundamental restructuring of disclosure requirements for financial instruments. Essentially, disclosures are required relating to management's intentions, methods, risks, securities and processes. The disclosure requirements under IFRS 7 and the amended equity disclosures according to IAS 1 are applicable for the first time to reporting periods beginning on or after January 1, 2007. The new rules will not lead to any changes in valuation for the Company.

IFRIC 10, "Interim Financial Statements and Impairment," and IFRIC 11, "IFRS 2 – Group and Treasury Share Transactions," were issued per December 31, 2006, and endorsed by the EU, although their application is not yet mandatory. No material impact on the Company's profitability, financial position or liquidity is anticipated in the future from the employment of these interpretations.

In addition, IFRS 8, "Operating Segments," IFRIC 7, "Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies," IFRIC 8, "Scope of IFRS 2," IFRIC 9, "Reassessment of Embedded Derivatives," and IFRIC 12, "Service Concession Arrangements," were reissued prior to December 31, 2006. These standards and interpretations have not yet been endorsed by the EU, nor have they been voluntarily applied. Here, too, no material impact on the Company's profitability, financial position or liquidity is anticipated in the future.

Notes

3. Accounting and valuation methods

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 decide the financial and operating policies of the controlled entity. In addition to PFEIFFER VACUUM TECHNOLOGY AG, one German (2005: 2) and twelve foreign subsidiaries (2004: 12) are fully consolidated in the Company's Consolidated Financial Statements.

PFEIFFER VACUUM Group on December 31, 2006

Name of company	Location	Holdings (in %)
PFEIFFER VACUUM TECHNOLOGY AG	D-Asslar	
PFEIFFER VACUUM GMBH	D-Asslar	100.0
PFEIFFER VACUUM AUSTRIA GMBH	A-Vienna	100.0
PFEIFFER VACUUM (SCHWEIZ) AG	CH-Zurich	99.4
PFEIFFER VACUUM FRANCE SAS	F-Buc	100.0
PFEIFFER VACUUM LTD.	UK-Newport	100.0
PFEIFFER VACUUM NEDERLAND B. V.	NL-De Meern	100.0
PFEIFFER VACUUM SCANDINAVIA AB	S-Upplands	100.0
PFEIFFER VACUUM INC.	USA-Nashua	100.0
PFEIFFER VACUUM HOLDING B. V.	NL-De Meern	100.0
PFEIFFER VACUUM BELGIUM N. V.	B-Temse	100.0
PFEIFFER VACUUM ITALIA S. P. A.	I-Rho	100.0
PFEIFFER VACUUM (INDIA) LTD.	IND-Secunderabad	73.0
PFEIFFER VACUUM KOREA LTD.	KR-Yongin-City, Kyungki-Do	75.5

The operations of PFEIFFER VACUUM SYSTEMS GMBH, of Asslar, which had been included in the Consolidated Financial Statements for the 2005 fiscal year, were discontinued in 2005. All assets and liabilities, income and expenses as well as changes in cash and cash equivalents resulting from the discontinued operation have been reported separately (please refer to Note 27). There were otherwise no changes in the composition of the consolidated companies.

Inclusion in the Consolidated Financial Statements is made on the basis of individual financial statements prepared in accordance with consistent accounting and valuation principles. The balance sheet date of the individual financial statements of the included companies is the same as the balance sheet date of the Consolidated Financial Statements.

There were no investments in jointly controlled entities or investments in associated companies as of December 31, 2006, or in previous years. Nor were there any controlled entities pursuant to the rules of SIC 12, "Consolidation – Special Purpose Entities."

Until December 31, 2004, consolidation of investments in subsidiaries had been effected under U.S. GAAP rules in such a manner that in the case of additions the cost of acquisition of the investments was netted against the shareholders' equity attributable to them at the time of acquisition or initial consolidation ("purchase accounting"). Employing the simplification rules under IFRS 1, the former consolidation of investments in securities was adopted for IFRS. There have been no initial consolidations since January 1, 2005.

Minority interests represent that portion of the earnings and net assets not held by the corporate group; in the Consolidated Financial Statements, they are presented in equity separately from the shareholders' equity of the parent corporation. Minority interests of 0.6 %, 24.5 % and 27.0 %, respectively, exist at the PFEIFFER VACUUM (SCHWEIZ) AG, PFEIFFER VACUUM KOREA LTD. and PFEIFFER VACUUM (INDIA) LTD. subsidiaries.

All intercompany receivables and liabilities, gains and losses, revenues and expenses are eliminated in connection with the consolidation process.

Foreign currency translation The annual financial statements of subsidiaries domiciled outside the European Currency Union have been translated into euros (€) in accordance with IAS 21, "The Effects of Changes in Foreign Exchange Rates." Each company within the corporate group stipulates its own functional currency. The functional currency of the subsidiaries is the respective local currency. When translating financial statements presented in foreign functional currencies, year-end exchange rates are applied to assets and liabilities, while average annual exchange rates are applied to income statement accounts. The resulting translation adjustments are recorded in other equity components.

In the individual financial statements of consolidated companies, foreign-currency transaction gains and losses from regular operations are recorded as a separate line item in the income statement.

Income recognition Sales revenues are recognized when the material risks and rewards relating to the ownership of the products sold passes to the purchaser, which is essentially the case when the goods are shipped. Should product sales be subject to customer acceptance, revenues are not recognized until customer acceptance has occurred. Service revenues are recognized when the underlying services are performed. These revenues include the invoiced working hours of the service personnel, as well as spare parts and replacement products. Rebates are recorded as a reduction of sales revenues. Interest income is recorded when the interest originates. Rental income from investment properties is recorded on a straight-line basis over the term of the leases.

Notes

Cost of sales The cost of sales presented in the income statement include all expenses that are directly or indirectly attributable to the (sold) product or service. This essentially includes materials consumed (including inbound freight charges), production-related wages and salaries, purchasing and receiving costs, as well as certain service costs. Inventory excess and obsolescence charges, as well as warranty-related expenses, are also recorded as cost of sales. Warranty provisions for recognized revenues are formed as of year-end.

Selling and marketing expenses Selling and marketing expenses predominantly include wages and salaries, marketing and advertising costs, costs relating to trade shows and conventions, as well as other merchandising costs (such as catalogs, brochures, etc.).

General and administrative expenses General and administrative expenses predominantly include wages and salaries, expenses related to allowances for doubtful accounts, audit and other general consulting fees, as well as all costs relating to the Company as a whole.

Research & development Research & development costs are expensed as incurred. Development costs are not capitalized, since the capitalization prerequisites in IAS 38, “Intangible Assets,” are either not fully satisfied or because the capitalized amounts are deemed to be immaterial due to the short duration between technical feasibility and actual market launch.

Property, plant and equipment and intangible assets Property, plant and equipment and intangible assets are stated at cost and depreciated/amortized on a straight-line basis over the customary useful lives of the assets. At the close of each fiscal year, the useful lives and depreciation/amortization methods, as well as the residual values in the case of property, plant and equipment, are reviewed and adjusted where necessary. The following useful lives are assumed:

Production halls, production and administration buildings and similar facilities	20 – 40 years
Machinery and equipment (including IT equipment)	3 – 15 years
Software*	2 – 5 years

* There are currently no intangible assets with indefinite useful lives.

Scheduled depreciation and amortization are allocated to the expense lines in the income statement on the basis of the input involved.

The Company reviews long-lived assets for impairment whenever events or changes in circumstances suggest that the carrying amount of an asset may not be recoverable. Should impairment indicators exist, the Company performs the analyses required under IAS 36, "Impairment of Assets," with the carrying amount of the asset being compared to the recoverable amount. The recoverable amount of an asset is the greater of the fair value of an asset or a cash-generating unit less its selling costs and value in use. The resulting amount must be determined for each individual asset, unless an asset generates cash flows that are dependent of those from other assets or other asset groups. Should the carrying amount of an asset be higher than its recoverable amount, the asset is viewed as being impaired and written down to its recoverable amount. To determine the value in use of an asset, the anticipated future cash flows are discounted to their cash value, taking into consideration a before-tax discount rate that reflects current market expectations with respect to the interest rate effect and the specific risks of the asset in question. An appropriate valuation model is employed to determine the fair value less selling costs. This model is based on valuation multiples and other available indicators for the fair value.

Any resulting impairment loss is recorded in the income statement. Any required reversals of impairment losses are recorded in future-period income statements up to the amount of the impairment loss reversal limit. This limit is determined by the amount that would have resulted at the close of the respective fiscal year given scheduled depreciation of the asset. Repair and maintenance costs are expensed as incurred.

A fixed or intangible asset is derecognized either at the time of disposal or at such time as no economic benefit can any longer be expected from the further utilization or sale of the asset. Gains and losses from disposals of assets are determined and recorded in the income statement on the basis of the difference between selling costs and carrying amount, less any directly attributable selling costs, where applicable.

Investment properties Real estate properties are allocated to the portfolio of investment properties if they are held for the purpose of generating rental income. They are stated at cost and depreciated on a straight-line basis over their estimated useful lives (cost model). Assessment of their residual values, useful lives and depreciation methods, as well as any impairment losses, is performed analogously to the procedure described in connection with property, plant and equipment. Investment properties are derecognized when they are disposed or when they are no longer being permanently used and they are no longer expected to produce any further future economic benefit.

Investment securities When investment securities are acquired, they are categorized in accordance with IAS 39, "Financial Instruments: Recognition and Measurement." Fixed-income securities (such as bank or corporate bonds, bonded loans) are non-derivative financial assets having a contractually agreed maturity and redeemable at their notional value. Securities for which the Company has the ability and the intention to hold until maturity are classified as "held to maturity." Upon acquisition, they are valued at their fair value, less transaction costs. Subsequent valuation is effected at their carrying amount. Equity securities do not have contractually agreed maturities and are classified as "available for sale" and measured at fair value. Changes in fair value are not recorded in the income statement but directly in equity. Securities with remaining maturities of one year or less are classified as current.

Inventories Inventories are valued at acquisition or manufacturing costs or market price, with the market price being defined as net realizable value. Removals from inventory are determined on an average cost basis. Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and estimated selling costs. Valuation adjustments on excess inventories are determined on the basis of internal procedures in accordance with the ratio between inventory turnover and future sales or usage. Excess inventories are stocks of individual inventory items that exceed anticipated sales or usage. Management utilizes its judgment in forecasting sales or usage.

Accounts receivable and other financial assets Accounts receivable are recorded at the invoiced amount (including any value added tax) and typically do not bear interest. The Company continuously assesses the adequacy of the allowances for doubtful accounts receivable and makes appropriate adjustments on the basis of both specific probability and aging distribution. Any subsequent reversal is recorded in the income statement in an amount not to exceed their carrying amount (net of amortization or depreciation). Receivables are derecognized after all means of collection have been exhausted. Other financial assets are recorded at their carrying amount less any impairment where applicable. Non-current accounts receivable and financial assets are valued by means of the effective interest method.

Derivatives and hedging transactions The Company uses derivatives only to manage foreign-currency exchange rate risks. Around 37 % of total consolidated sales revenues are invoiced in foreign currency (non-euro, predominantly in U.S. dollars). The Company enters into forward exchange and option transactions to hedge its future sales revenues invoiced in foreign currencies against exchange rate fluctuations. Derivative financial instruments are acquired exclusively for this purpose. PFEIFFER VACUUM does not engage in speculative hedging transactions. The maturities of the derivative financial instruments are aligned with the anticipated foreign-currency receipts. Moreover, the risk management objectives and strategies for the hedging transaction are documented.

Derivative financial instruments employed for hedging purposes are recorded at their fair values both at the time they are first recorded as well as in subsequent periods. Derivative financial instruments are recorded as assets if their fair value is positive and as liabilities if their fair value is negative. Changes in the fair value of these derivatives are recorded in equity without any impact on the income statement if the hedging position is classified as effective. The derivative is reclassified as income at the time of realization of the underlying transaction that has been hedged. Ineffective hedging elements of the change in the fair value of derivatives, as well as gains or losses stemming from changes in the fair value of derivative financial instruments that do not satisfy the criteria for being recorded as hedging transactions, are recorded in the income statement. Please refer to Note 25 for further information relating to financial instruments.

Cash and cash equivalents The Company records all highly liquid investments having original maturities of three months or less as cash and cash equivalents.

Provisions Provisions are formed when the corporate group presently has a legal or constructive outside obligation as a result of a past event and it is likely that settlement of the obligation will lead to an outflow of economic resources and the amount of the obligation can be reliably determined. The valuation is made on the basis of the best estimate of the extent of the obligation.

Pensions Valuation of pension obligations under defined benefit plans is based upon the projected unit credit method in accordance with IAS 19, "Employee Benefits." Under this rule, changes in the amount of either the defined benefit obligation (under pension plans), the actuarial present value of earned entitlements (under other plans) or variances between actual and expected returns on plan assets or from changes in assumptions can result in actuarial gains or losses not yet recognized in the Company's Consolidated Financial Statements. Actuarial gains or losses are recognized in the income statement when the balance of the cumulative, unrecorded actuarial gains or losses for each individual plan exceed the greater of the two amounts resulting from 10 % of the defined benefit obligation or 10 % of the fair value of the plan assets at the close of the previous reporting period. These gains or losses are amortized over the average remaining service period of active employees who are expected to receive benefits under the plan. The accounting for obligations under defined benefit plans is based upon actuarial reports calculated as per the close of the fiscal year. The existing pension plans are detailed in Note 20.

Notes

Expenses for defined contribution plans are recorded as expense in the income statement when the premium is paid. No provisions are formed for this purpose.

Income taxes Current income taxes are stated as a liability to the extent to which they have not yet been paid. General tax risks within the group are considered additionally. Should the amounts already paid for income taxes exceed the amount owed, the difference is stated as an asset. Calculation of the amount is based upon the tax rates and tax legislation applicable at the close of the fiscal year.

Under IAS 12, "Income Taxes," deferred tax assets and liabilities are formed in the consolidated and taxation financial statements for temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases (liability method). Additionally, deferred tax assets are recorded on tax loss carryforwards if they are likely to be realized. Valuation of deferred tax assets and liabilities is performed using the local tax rates expected to be in effect at the time of realization of the asset or satisfaction of the liability, with the tax rates applicable at the close of the fiscal year being employed. The effects of changes in tax laws are recognized in the results of operations in the period in which the new tax rates go into effect. Deferred taxes that relate to line items recorded directly under shareholders' equity are recorded directly under equity and not in the income statement. An adjustment is formed for deferred tax assets if it is unlikely that future tax advantages will be realized. Deferred tax assets and liabilities are offset if the entitlements and obligations relate to one and the same tax authority.

Trade and other accounts payable Trade accounts payable and other accounts payable are recorded at their notational value or at their higher redemption amount at the close of the fiscal year, including any value added tax.

Treasury shares Should the corporate group acquire treasury shares, they are deducted from shareholders' equity. The purchase, sale, issuance or recall of treasury shares is not recorded in the income statement.

Share-based compensation Accounting for share-based compensation in connection with convertible bonds issued to employees is based upon IFRS 2, "Share-based Payment."
The share-based compensation paid to employees consists of equity-settled plans under which the total value of the conversion rights granted to employees is determined as of the issue date using an option pricing model (Black-Scholes model). The total value of the conversion rights thus calculated is then recorded as personnel expense on a straight-line basis throughout the vesting period.

Discontinued operations In fiscal 2005, the Management Board, with the consent of the Supervisory Board, decided to discontinue the Company's DVD business. Accordingly, this operation, an element of the Germany operating segment, is stated as a discontinued operation in the Consolidated Financial Statements (see also Note 27).

Use of estimates The process of preparing financial statements requires the use of estimates and assumptions on the part of management. These estimates are based upon management's historical experience. Certain of the Company's accounting policies are considered critical, as they can have a major impact on the profitability, financial position and liquidity of the corporate group and necessitate significant or complex judgment on the part of management. These estimates and assumptions could differ from the actual results. As of December 31, 2006, no judgment uncertainties existed that could lead to the significant risk of the need for a material adjustment of book values in the 2007 fiscal year.

Material forward-looking estimates and assumptions exist, among others, in connection with the formation of pension and warranty provisions, in forecasting the useful lives of fixed assets or in connection with deferred tax assets; the major assumptions are detailed in the notes relating to the individual line items of the balance sheet or in the accounting principles.

4. Transition to IFRS as basis for the accounting

Previous GAAP and IFRS opening balance Until December 31, 2005, the Consolidated Financial Statements of PFEIFFER VACUUM had been prepared in accordance with U.S. GAAP. In 2006 the basis for the accounting was changed and the Consolidated Financial Statements for the fiscal year ended December 31, 2006, have been prepared in accordance with IFRS. Due to the mandatory reporting of comparable figures as of December 31, 2005, under IFRS 1 the IFRS opening balance was prepared as of January 1, 2005.

Revaluations The impact from the differing valuation of assets and liabilities under IFRS as compared to U.S. GAAP was recorded directly in equity in retained earnings. According to IFRS 1, the former consolidation of investments under U.S. GAAP was adopted to the IFRS opening balance. In valuing pension obligations, all actuarial losses existing on the transition date were recorded directly in equity with no impact on the income statement (so-called fresh-start method). For all other valuations IFRS were adopted retrospectively. Overall, the transition from U.S. GAAP to IFRS as basis for the accounting had only a minor impact on the Consolidated Financial Statements of the PFEIFFER VACUUM Group.

The impact of the transition from U.S. GAAP to IFRS on equity and net income of 2005 is described in the following reconciliations.

Reconciliation of Equity

	Note	Jan. 01, 2005	Dec. 31, 2005
Equity according to U.S. GAAP		**99,355**	**112,631**
Revaluation of personnel provisions	I	– 1,554	– 1,682
Revaluation of pension provisions	II	– 6,501	– 6,228
Omission of "Minimum Pension Liability"	III	164	3,756
Deferred taxes on revaluations (first-time adoption)	IV	3,050	3,040
Inclusion of minority interests in equity*	VI	–	631
Currency variances from subsequent valuation		–	– 150
Equity according to IFRS		**94,514**	**111,998**
Total difference between IFRS and U.S. GAAP		– 4,841	– 633

* Including related foreign exchange rate differences

(in K €)

Reconciliation of Net Income*

	Note	2005
Net income according to U.S. GAAP		**22,748**
Different valuation of personnel provisions	I	– 128
Different valuation of pension provisions	II	273
Different deferred taxes	IV	– 10
Share-based compensation	V	– 492
Inclusion of minority interests (according to IFRS 1.41)	VI	516
Net income according to IFRS		**22,907**
Total difference between IFRS and U.S. GAAP		159

* Net income attributable to PFEIFFER VACUUM TECHNOLOGY AG shareholders

(in K €)

I. Revaluation of personnel provisions For the valuation of old-age part-time obligations under IFRS the increases under the so-called block model are recognized with the expected amount at the signing of the respective contract. Contrary to this, under U.S. GAAP the increases are recognized in the income statement over the terms of employment. Accordingly, the provision for old-age part-time obligations included in the personnel provisions were to be increased by K € 1,554 at January 1, 2005 and reduced equity. During fiscal 2005 this resulted in expenses increased by K € 128.

II. Revaluation of pension provisions In valuating pension obligations under IFRS 19 "Employee Benefits" the Company used the simplification rule under IFRS 1.20 after which the cumulated actuarial gains and losses existing at the transition date were recognized. Taking into account the differences between U.S. GAAP and IAS 19 the pension provision increased by K€ 6,501 on January 1, 2005 and by K€ 6,228 on December 31, 2006. The changes in pension provision during the year 2005 led to a decreased expense of K€ 273 as compared to U.S. GAAP.

III. Omission of Minimum Pension Liability Different from U.S. GAAP the IFRS do not include rules concerning the so called Minimum Pension Liability. Under U.S. GAAP such a liability must be recorded immediately and net of tax in equity if certain conditions are met. The omission of this obligation under IFRS caused an increase in equity but did not impact net income.

IV. Deferred taxes on revaluation Deferred taxes are determined on the basis of differences between IFRS values and tax values. The increased personnel and pension provisions as compared to U.S. GAAP led to an increase in deferred tax assets because the differences resulting from the revaluation will reverse in future and therefore deferred taxes have to be recorded. Consequently, equity increased. Due to the development of deferred tax assets and liabilities in 2005 deferred tax income decreased by K€ 10 as compared to U.S. GAAP.

V. Share-based payment According to IFRS 1 all rules of IFRS 2 were already applied in financial year 2005. Consequently, personnel expenses from granting equity instruments and corresponding increases in equity are recognized during the vesting period. Under U.S. GAAP there was a possibility to apply the standard comparable to IFRS 2 for the first time in financial year 2006. As a result, the IFRS opening balance as at January 1, 2005 included the cumulative effect amounting to K€ 2,506 from the employee participation program as a reduction in retained earnings and a cross entry in additional paid-in capital. Additionally, net income of the year 2005 under IFRS was burdened by K€ 492.

VI. Minority interests According to IFRS minority interests must be shown as part of equity whereas this item was recorded within liabilities under U.S. GAAP. Therefore the equity under IFRS is higher compared to U.S. GAAP values. Additionally, under U.S. GAAP minority interests were disclosed for the first time in the year 2005 due to materiality reasons and were recorded entirely through the income statement. According to IFRS 1.41 minority interests where recorded already in the IFRS opening balance on January 1, 2005 without any impact on the income statement. The IFRS income statement for the year 2005 therefore only contains the changes in minority interests attributable to the year 2005.

Notes

Effects on the statements of cash flow Unchanged to U.S. GAAP cash flows under IFRS are derived using the indirect method. Different from U.S. GAAP interests paid and received in cash and income taxes paid have to be shown as a separate line item in the statements of cash flow under IFRS. Calculation of the operating cash flow starts with the earnings before taxes. Overall the impacts of transition to IFRS on operating cash flows are not material as only the lines within the statements of cash flows are different from the former reporting under U.S. GAAP, whereas the operating cash flow itself is nearly unchanged.

Notes to the Consolidated Balance Sheets and Consolidated Statements of Income

5. Intangible assets

The intangible assets item includes purchased software. The development of intangible assets in 2006 and 2005 was as follows:

Development of Intangible Assets

	2006	2005
Acquisition cost		
Balance on January 1	2,945	2,657
Currency changes	–28	36
Additions	208	276
Disposals	–	–24
Balance on December 31	3,125	2,945
Depreciation		
Balance on January 1	2,612	2,386
Currency changes	–28	36
Additions	222	214
Disposals	–	–24
Balance on December 31	2,806	2,612
Net book value on December 31	**319**	333

(in K €)

Impairment losses did not have to be recorded for intangible assets in fiscal 2006 and 2005.

6. Property, plant and equipment

Development of Property, Plant and Equipment 2006

	Land and Buildings	Technical Equipment and Machinery	Other Equipment, Factory and Office Equipment	Construction in Progress	Total
Acquisition or manufacturing cost					
Balance on January 1, 2006	27,217	23,203	15,599	–	66,019
Currency changes	–5	–20	–155	–	–180
Additions	1,379	893	1,409	777	4,458
Disposals	–	–101	–909	–	–1,010
Reclassifications	140	–10	–	10	140
Balance on December 31, 2006	28,731	23,965	15,944	787	69,427
Depreciation					
Balance on January 1, 2006	12,239	20,078	12,401	–	44,718
Currency changes	–4	–12	–140	–	–156
Additions	936	915	982	–	2,833
Disposals	–	–101	–768	–	–869
Balance on December 31, 2006	13,171	20,880	12,475	–	46,526
Net book value on December 31, 2006	**15,560**	**3,085**	**3,469**	**787**	**22,901**

(in K €)

Development of Property, Plant and Equipment 2005

	Land and Buildings	Technical Equipment and Machinery	Other Equipment, Factory and Office Equipment	Construction in Progress	Total
Acquisition or manufacturing cost					
Balance on January 1, 2005	26,245	23,760	15,349	–	65,354
Currency changes	6	18	194	–	218
Additions	966	242	986	–	2,194
Disposals	–	–817	–930	–	–1,747
Balance on December 31, 2005	27,217	23,203	15,599	–	66,019
Depreciation					
Balance on January 1, 2005	11,352	19,813	12,081	–	43,246
Currency changes	4	14	174	–	192
Additions	883	1,068	1,013	–	2,964
Disposals	–	–817	–867	–	–1,684
Balance on December 31, 2005	12,239	20,078	12,401	–	44,718
Net book value on December 31, 2005	**14,978**	**3,125**	**3,198**	**–**	**21,301**

(in K €)

Impairment losses did not have to be recorded for property, plant and equipment for fiscal 2006 and 2005. No such assets were offered as security for loans.

In 2005, technical equipment and machinery included the amount of K€ 10 for expenses in connection with construction in progress, which was not disclosed separately.

7. Investment properties

Development of Investment Properties

	2006	2005
Acquisition or manufacturing cost		
Balance on January 1	4,352	4,352
Additions	944	–
Disposals	– 660	–
Reclassifications	– 140	–
Balance on December 31	4,496	4,352
Depreciation		
Balance on January 1	3,259	3,235
Additions	59	24
Disposals	– 660	–
Reclassifications	–	–
Balance on December 31	2,658	3,259
Net book value on December 31	**1,838**	1,093

(in K€)

The real estate shown in this line item was entirely rented in fiscal 2006 and 2005. Rental revenues amounted to K€ 550 (2005: K€ 548), as opposed to direct operating expenses of K€ 159 (2005: K€ 107). Impairment losses did not have to be recorded in the years 2006 and 2005.

The fair values of investment properties total € 2.1 million as per December 31, 2006 (December 31, 2005: € 1.6 million). Fair values were derived on the basis of the Company's own calculations by discounting expected net rental revenues during the estimated remaining life by a discount rate of 6.0 to 8.0 %.

8. Investment securities

Composition of Investment Securities

	Net Book Value 2006	Fair Value 2006	Unrealized Gain/Loss 2006	Net Book Value 2005	Fair Value 2005	Unrealized Loss 2005
Current investment securities						
Held to maturity	1,000	1,001	1	3,000	2,961	−39
Non-current investment securities						
Available for sale	12,537	12,537	–	–	–	–
Held to maturity	4,998	4,187	−811	6,000	5,750	−250
	17,535	**16,724**	**−811**	6,000	5,750	−250

Dec. 31

(in K €)

Those investment securities classified as available-for-sale consist of publicly traded equity securities with no defined maturity or fixed interest rate. They are valued at fair value, with changes in fair value being recorded directly in equity.

The investment securities classified as held to maturity are carried at amortized cost. PFEIFFER VACUUM considers the impairments to be temporary as the securities will be redeemed at notional value. The securities consist of bank or corporate bonds with variable interest rates or bonded loans. They were valued at the close of the fiscal year using marketable interest rates. Non-current investment securities (€ 5.0 million) will essentially mature in 2015. The issuer of the securities is allowed to redeem the securities earlier if certain stipulations contained in the terms and conditions are satisfied.

9. Inventories

Composition of Inventories

	2006	2005
Raw materials	6,132	5,441
Work in process	4,590	3,989
Finished products	8,116	7,773
Reserves	−3,318	−3,456
Total inventories, net	**15,520**	13,747

Dec. 31

(in K €)

Material consumption in fiscal 2006 amounted to € 69.4 million (2005: € 63.1 million) and is included in cost of sales.

Development of Inventory Reserves

	2006	2005
Balance at beginning of year	3,456	4,394
Currency changes	−59	−166
Additions	295	693
Inventory written off	−374	−1,465
Balance at end of year	**3,318**	3,456

(in K €)

10. Trade accounts receivable

Composition of Trade Accounts Receivable

	2006	2005
Trade accounts receivable	24,320	23,255
Allowance for doubtful accounts	−386	−774
Trade accounts receivable, net	**23,934**	22,481

Dec. 31

(in K €)

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 do not bear any interest and have a remaining term of less than one year.

Summary of Activity in the Allowance for Doubtful Accounts

	2006	2005
Balance at beginning of year	774	1,026
Currency changes	−23	−69
Additions	77	264
Accounts written off	−442	−447
Balance at end of year	**386**	774

(in K €)

Due to the Company's rigorous system of accounts receivable management and its policy of delivery to new customers against payment in advance or with a credit limit, it was possible to again reduce allowances for doubtful accounts.

11. Other accounts receivable, other non-current assets

Other accounts receivable in the amount of € 1.8 million consist predominantly of tax claims for overpaid income taxes (€ 1.3 million; 2005: € 0.5 million) and V.A.T. (€ 0.4 million; 2005: – €). Other non-current assets include the German corporate tax reductions claims of € 1.1 million which were capitalized in fiscal 2006.

12. Cash and cash equivalents

The cash and cash equivalents item consists of cash at banks and cash on hand. Additionally, the Company records all bank deposits having an original maturity of three months or less as cash equivalents. The fair value of cash and cash equivalents corresponds to their net book value.

13. Share capital and additional paid-in capital

The share capital of PFEIFFER VACUUM TECHNOLOGY AG (parent company) consists of 8,970,600 no-par ordinary shares issued and 8,843,524 no-par ordinary shares outstanding as per December 31, 2006. As per December 31, 2005, there were 8,790,600 shares issued and 8,690,524 shares outstanding.

The Annual Shareholders Meeting on June 8, 2005, authorized the Management Board to increase the Company's share capital by K€ 11,252 or 4,395,300 shares in consideration for contributions in cash and/or kind. This authorization is valid though June 7, 2010, and is subject to the consent of the Supervisory Board.

In connection with the conversion of convertible bonds, share capital was increased by K€ 461 or 180,000 shares in fiscal 2006. The conversion price of € 40.30 which was due on the conversion date increased additional paid-in capital by K€ 7,254. Furthermore, IFRS personnel expenses relating to the convertible bonds increased additional paid-in capital by K€ 232 (2005: K€ 492). Please refer to Note 19 for further details relating to the convertible bonds.

14. Paid and proposed dividends

The Annual Shareholders Meeting on May 31, 2006, resolved to pay a dividend of € 1.35 per share (Annual Shareholders Meeting on June 8, 2005: € 0.90 per share). The dividend payment carried out thereunder amounted to K€ 11,732 (2005: K€ 7,821).

The Management and Supervisory Boards will propose at the Annual Shareholders Meeting that the shareholders participate in the Company's success in the form of a dividend in the amount of € 2.50. The resulting payment of K€ 22,109 had not been recorded as a liability in the balance sheet as of December 31, 2006.

Notes

15. Other equity components

Other equity components comprise unrealized gains/losses on hedges, foreign currency translation adjustments and gains from revaluation of available-for-sale securities at fair value.

Development of Other Equity Components

	Unrealized Gains/Losses on Hedges	Foreign Currency Translation Adjustments	Revaluation of Available-for-Sale Securities	Total
Balance on January 1, 2005	190	–2,814	–	–2,624
Changes in fair value of cash flow hedges (net of tax)	–386	–	–	–386
Changes in foreign currency translation	–	2,177	–	2,177
Balance on December 31, 2005	**–196**	**–637**	**–**	**–833**
Changes in fair value of cash flow hedges (net of tax)	455	–	–	455
Changes in foreign currency translation	–	–1,587	–	–1,587
Revaluation of securities classified as available-for-sale (net of tax)	–	–	3,485	3,485
Balance on December 31, 2006	**259**	**–2,224**	**3,485**	**1,520**

(in K €)

16. Treasury shares

The Annual Shareholders Meeting on May 31, 2006 authorized the Company to purchase treasury shares pursuant to § 71 sub-para. 1 No. 8, German Stock Corporation Act (“AktG”). This authorization covers the purchase of a proportionate amount of share capital up to € 2,250,393.60 (879,600 shares equal to 10 % of share capital as per the date of authorization) and is valid through November 30, 2007. As of December 31, 2006, treasury shares totaled € 3.7 million and consisted of 127,076 ordinary shares, carried at acquisition cost. 27,000 shares thereof were repurchased according under the new authorization, while 100,076 were repurchased in prior years.

17. Long-term debt

There was no long-term debt as of December 31, 2006. PFEIFFER VACUUM and its subsidiaries have various lines of credit available for operating purposes, totaling approximately € 10.7 million (2005: € 10.8 million). No amounts under these lines were outstanding on December 31, 2006 or 2005.

18. Income taxes (from continuing operations)

Under current German corporate tax law, taxes on income comprise corporate taxes, trade taxes and an additional surtax.

Income Before Tax was Taxable in the Following Jurisdictions

	2006	2005
Germany	38,025	30,859
Outside Germany	8,367	8,131
Total	**46,392**	38,990

(in K €)

Components of the Income Tax Expenses and Benefits

	2006	2005
Current taxes		
Germany	14,089	12,102
Outside Germany	2,617	2,436
	16,706	14,538
Deferred taxes		
Germany	–378	–112
Outside Germany	278	555
	–100	443
Income tax expenses	**16,606**	14,981

(in K €)

Amounting to K € 17,482 current tax expenses relate to earnings in 2006 (2005: K € 14,458). This item additionally contains tax refunds for prior years amounting to K € 776 (2005: Tax payments of K € 80).

Notes

Reconciliation from Expected to Actual Income Tax Expense

	2006	2005
Earnings before taxes	46,392	38,990
Expected tax expense using a tax rate of 37.87 %	17,569	14,766
Capitalization of German corporate tax reduction claims	–1,098	–
Non-deductible expenses	49	329
Loss carryforwards for a non-German subsidiary	–28	–178
Taxes due to dividend payments	12	69
Tax debits due to tax filings in prior years	226	–
Higher/lower foreign tax rates	–274	–14
Other	150	9
Income tax expense	**16,606**	14,981

(in K €)

Following 38.4 % in 2005, the tax rate for the PFEIFFER VACUUM Group amounts to 35.8 % in 2006. Material changes resulted predominantly from the capitalization of German corporate tax reduction claims in the amount of € 1.1 million.

Deferred Taxes Relate to the Following Balance Sheet Items

	2006	2005
Deferred tax assets		
Pensions	4,187	4,217
Personnel and other provisions	1,057	936
Inventories	1,032	745
Intangible assets	195	279
Property, plant and equipment	51	–
Allowance for doubtful accounts	20	105
Cash flow hedges	–	120
Tax loss carryforwards	–	28
Total deferred tax assets	**6,542**	6,430
Deferred tax liabilities		
Property, plant and equipment	–568	–543
Tax-privileged reserves of the Swedish subsidiary	–288	–262
Cash flow hedges	–158	–
Inventories	–123	–9
Unrealized gains from available-for-sale securities	–67	–
Allowance for doubtful accounts	–61	–6
Total deferred tax liabilities	**–1,265**	–820
Total deferred taxes, net	**5,277**	5,610

Dec. 31

(in K €)

The Balance Sheet Records the Following Amounts

	2006	2005
Deferred tax assets	5,585	6,430
Deferred tax liabilities	–308	–820
Total deferred taxes, net	**5,277**	5,610

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(in K€)

Deferred Taxes Recorded in the Income Statement

	2006	2005
Pensions	–10	187
Personnel and other provisions	–132	–57
Inventories	–165	–103
Allowance for doubtful accounts	133	–11
Tax loss carryforwards	28	179
Property, plant and equipment	–28	–85
Tax-privileged reserves of the Swedish subsidiary	15	262
Other	59	71
Total deferred taxes	**–100**	443

(in K€)

As of December 31, 2006, the Company recorded deferred tax assets amounting to K€ –225, which were directly recorded in equity (2005: K€ 120). The amount of K€ –158 thereof relates to unrealized gains/losses on cash flow hedges (2005: K€ 120), and for the first time the amount of K€ –67 applies to unrealized gains from available-for-sale securities.

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.

The tax loss carryforward of a non-German subsidiary stemming from prior years in the amount of € 0.1 million was offset against positive taxable income for this subsidiary in 2006. The corresponding deferred tax assets were taken off the books through the income statement.

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 temporary differences, 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.

Provisions have not been established 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. Following effective German law, dividends from non-German and German subsidiaries are 95 % tax-exempt, i.e. 5 % of dividend income is not deductible from income for corporate tax purposes. Management estimates that the effects of this rule will be negligible, as the German investments are consolidated for tax purposes.

19. Convertible bonds and share-based compensation

The purpose of the employee participation program is to motivate management and certain key employees by providing them with an opportunity to share in the Company's share price development. In prior years, when share option plans were not allowed under German law, the use of convertible bonds was common practice among publicly traded German corporations. The Company's employee participation program utilized convertible bonds. Under this program, the Company grants an employee a loan to finance the purchase a Company-issued convertible bond. The loan and the nominal value of the convertible bond were equal to one another, and the interest rate on the loan is equal to the interest rate on the convertible bond. Accordingly, there was no out-of-pocket cost to the Company or to the employee (as in the case of a share option). The employee may then exercise his or her right to convert the bond to Company shares by repaying the loan to the Company for the nominal value of the convertible bond. The remaining payment was only the exercise price, which is determined at the issue date of the convertible bonds.

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 principle amount of € 0.6 million to 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 On July 7, 2002 the Company issued 4,600 convertible bonds having an aggregate principle amount of € 0.6 million to certain salaried employees of the Company in Germany and other countries. The conversion feature entitled the bearer to convert each bond to 50 no-par ordinary shares of the Company.

The conversion price was 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 one share was set at € 42.86 per share. The fair value as of the date of grant was € 10.35 per ordinary share option. The fair value of each option grant was estimated on the date of grant using the Black-Scholes option pricing model, with the following assumptions: Risk-free interest rate: 4,5 %; expected term: 4 years; expected dividend yield: 1 % and expected volatility: 30 %. The expected volatility was based upon historical volatility. The risk free interest rate was derived from the interest rates of German government bonds, while the expected term was taken from the expected term of the conversion rights.

Each holder of convertible bonds could 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. All bearers of convertible bonds exercised their conversion rights in the two conversion periods in 2006. Thus, no convertible bonds had to be disclosed as of December 31, 2006.

The convertible bonds bore interest at 6 % p.a. up to the conversion date. Employees were given the opportunity of financing the purchase of the convertible bonds through interest-bearing employee loans. These loans bore interest at the same fixed rate as the bonds, had identical terms, were classified as other non-current assets in the balance sheet and were repayable upon conversion of the bonds or, if the bonds were called by the Company, upon termination of employment. The employee loans granted under this program were redeemed in 2006 in connection with the conversion and amounted to K€ 314 as of December 31, 2005.

Summary of Option Shares Relating 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, 2005	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
Granted	–	–	–	–
Exercised	–	–180,000	–180,000	42,86
Forfeited	–	–	–	–
Redeemed	–	–	–	–
Convertible shares outstanding on December 31, 2006	**–**	**–**	**–**	**–**

108,000 option shares under the 2002 program were exercisable on December 31, 2005. In the two conversion periods following the Annual Shareholders Meeting on May 31, 2006, and in November/December 2006, all outstanding convertible bonds, having a notional value of K € 461, were converted to 180,000 no-par ordinary shares. Share capital was thus increased by K € 461. The total cash adjustment of K € 7,254 paid in connection with the conversion (equivalent to € 40.30 per share) was recorded in additional paid-in capital (Please refer to Note 13).

In fiscal 2006 and 2005, personnel expenses in the amount of K € 232 and K € 492, respectively, were recorded with regard to the convertible bonds.

20. Pensions and similar obligations

Defined benefit plans 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 has 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. 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 %).

Composition of Total Pension Expenses for All Plans

	2006	2005
Service cost	1,179	1,027
Interest cost	2,235	2,229
Expected return on plan assets	−1,906	−2,202
Net periodic pension cost	**1,508**	1,054

(in K €)

Composition of the Amounts Recorded in the Balance Sheets

	2006	2005
Present value of funded pension obligations	−49,719	−49,934
Present value of unfunded pension obligations	−633	−744
Total present value of pension obligations	−50,352	−50,678
Fair value of plan assets	44,917	41,595
Present value of net obligations	−5,435	−9,083
Unrecognized actuarial losses	1,721	4,607
Net amount recorded in balance sheets	**−3,714**	−4,476
Thereof: Prepaid pension costs	145	–
Thereof: Provisions for pensions	−3,859	−4,476

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(in K €)

Development of Benefit Obligations

	2006	2005
Present value of benefit obligations on January 1	50,678	44,486
Service cost	1,179	1,027
Interest cost	2,235	2,229
Actuarial gains/losses	−1,655	4,236
Benefit payments	−1,756	−1,664
Currency changes	−329	364
Present value of benefit obligations on December 31	**50,352**	50,678

(in K €)

Development of Plan Assets

	2006	2005
Fair value of plan assets on January 1	41,595	39,835
Expected return on plan assets	1,906	2,202
Company contributions	2,158	1,377
Benefit payments	–1,756	–1,664
Actuarial gains/losses	1,210	–356
Currency changes	–196	201
Fair value of plan assets on December 31	**44,917**	41,595

(in K €)

Actuarial Assumptions

	2006	2005
Germany		
Discount rate	4.60	4.40
Long-term rate of increase in compensation levels	2.75	2.75
Expected long-term rate of return on assets	4.60	4.50
United States, Netherlands, Belgium		
Discount rate	4.60–5.75	4.20–5.75
Long-term rate of increase in compensation levels	3.00	3.00
Expected long-term rate of return on assets	4.50–7.50	4.50–7.50

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(in %)

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 2007 will approximate 2007's net periodic pension cost (€ 1.1 million).

Composition of Plan Assets

	2006		2005	
	K €	%	K €	%
Equity securities	12,232	27.2	8,757	21.0
Fixed-income securities	27,311	60.8	27,151	65.3
Cash and cash equivalents	3,800	8.5	4,121	9.9
Other	1,574	3.5	1,566	3.8
Total	**44,917**	**100.0**	41,595	100.0

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Plan assets do not contain financial instruments issued by the Company or other assets owned by the Company.

Development of Benefit Obligations and Plan Assets Year on Year

	2006	2005
Present value of benefit obligation	50,352	50,678
Fair value of plan assets	44,917	41,595
Deficit	−5,435	−9,083
Experience adjustments on plan liabilities	−1,655	4,236
Experience adjustments on plan assets	1,210	−356

Dec. 31

(in K €)

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 € 417 for 2006 and K € 356 for 2005.

21. Trade accounts payable and other payables

Trade accounts payable do not bear any interest and have maturities less than one year.

Other payables are primarily composed of payroll taxes and V.A.T. as well payables from social security contributions. They do not bear any interest and have maturities less than one year, as well.

22. Provisions

Composition of Provisions

	2006	2005
Warranty provisions	1,929	2,887
Personnel provisions	10,932	7,816
Other provisions	703	612
Total	**13,564**	11,315

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(in K €)

Warranty provisions include the amounts expected due to claims in connection with product warranties. They are recorded as per the close of the fiscal year for realized revenues based on management's estimates and experience.

Employee-related expenses primarily include provisions for old-age part-time obligations, bonuses and service anniversary awards.

Development of Provisions

	Warranty	Personnel	Other	Total
Balance on January 1, 2006	2,887	7,816	612	11,315
Currency changes	– 54	– 117	– 29	– 200
Additions	844	9,426	940	11,210
Utilization	– 380	– 5,580	– 635	– 6,595
Releases	– 1,368	– 613	– 185	– 2,166
Balance on December 31, 2006	**1,929**	**10,932**	**703**	**13,564**

(in K €)

23. 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, 2006, classified by the periods in which the contingent liabilities or commitments expire.

Contractual Obligations

	Payments Due by Period				
	Total	< 1 Year	1–3 Years	3–5 Years	> 5 Years
Operating leases	2,299	842	1,082	360	15
Purchase obligations	3,524	541	2,796	187	–
Repair and maintenance	452	352	100	–	–
Expected pension payments*	24,134	1,990	4,249	4,634	13,261
Total	**30,409**	**3,725**	**8,227**	**5,181**	**13,276**

* Pension payments include only payments for the next ten years

(in K €)

Purchase obligations include long-term arrangements for future supplies of materials. Rental expenses amounted to € 1.1 million for both fiscal 2006 and 2005. The Company did not have any capital lease obligations in fiscal 2006 and 2005.

24. Segment reporting

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. Controlling of business development by corporate management is carried out on the legal entity's level. Accordingly, the Company identifies its primary operating segments geographically (by legal entity). 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)." All information with regard to the primary reporting format is based upon the geographic location of the related group company. The secondary reporting format follows the product categories within the consolidated group.

Transactions between segments are based upon the arm's-length principle. Segment sales and segment results in the primary reporting format initially include the effects of inter-segment transactions. These effects are eliminated in connection with the consolidation process.

Notes

Segment Reporting as of December 31, 2006

	Continuing Operations							
	Germany	Europe (Excluding Germany)	United States	Rest of World	Others/ Con-solidation	Total	Discon-tinued Operations	Group
Net sales	144,202	53,425	41,635	6,118	–65,896	179,484	–	179,484
Third party	79,700	52,999	41,577	5,208	–	179,484	–	179,484
Intercompany	64,502	426	58	910	–65,896	–	–	–
Operating profit	37,368	3,525	3,255	872	–63	44,957	–	44,957
Financial income					1,435	1,435	–	1,435
Income before income tax	37,368	3,525	3,255	872	1,372	46,392	–	46,392
Segment assets	124,165	20,556	20,824	3,125	–	168,670	–	168,670
Segment liabilities	20,187	7,036	1,867	608	–	29,698	–	29,698
Capital expenditures:								
Property, plant and equipment*	4,915	367	104	16	–	5,402	– –	5,402
Intangible assets	201	7	–	–	–	208	–	208
Depreciation*	2,482	277	62	71	–	2,892	–	2,892
Amortization	202	20	–	–	–	222	–	222

* Including investment properties

(primary reporting format, in K €)

Segment Reporting as of December 31, 2006

	Continuing Operations							
	Germany	Europe (Excluding Germany)	United States	Rest of World	Others/ Con-solidation	Total	Discon-tinued Operations	Group
Net sales	124,906	49,779	36,366	4,386	–55,920	159,517	461	159,978
Third party	70,159	49,720	36,301	3,337		159,517	461	159,978
Intercompany	54,747	59	65	1,049	–55,920	–	–	–
Operating profit	28,853	3,773	3,095	613	107	36,441	–1,462	34,979
Financial income					2,549	2,549	32	2,581
Income before income tax	28,853	3,773	3,095	613	2,656	38,990	–1,430	37,560
Segment assets	95,482	19,524	21,694	2,706	–	139,406	–	139,406
Segment liabilities	18,527	6,044	2,311	526	–	27,408	–	27,408
Capital expenditures:								
Property, plant and equipment*	1,664	277	144	109	–	2,194	–	2,194
Intangible assets	258	18	–	–	–	276	–	276
Depreciation*	2,521	342	50	75	–	2,988	247	3,235
Amortization	188	26	–	–	–	214	3	217

* Including investment properties

(primary reporting format, in K €)

Segment Reporting as of December 31, 2006

	Continuing Operations								
	Turbo-pumps	Measure-ment and Analysis Equipment	Service	Backing pumps	Systems	Other	Total	Discon-tinued Operations	Group
Net sales (third party)	78,284	45,938	25,344	24,786	4,582	550	179,484	–	179,484
Segment assets	69,653	26,926	17,615	20,096	4,604	29,776	168,670	–	168,670
Capital expenditures:									
Property, plant and equipment	2,762	676	425	492	102	945	5,402	–	5,402
Intangible assets	91	54	29	29	5	–	208	–	208

(secondary reporting format, in K €)

Segment reporting as of December 31, 2005

	Continuing Operations								
	Turbo-pumps	Measure-ment and Analysis Equipment	Service	Backing pumps	Systems	Other	Total	Discon-tinued Operations	Group
Net sales (third party)	64,397	41,347	23,515	22,775	6,935	548	159,517	461	159,978
Segment assets	56,850	24,309	16,094	17,432	5,700	19,021	139,406	–	139,406
Capital expenditures:									
Property, plant and equipment	908	487	331	379	89	–	2,194	–	2,194
Intangible assets	112	72	41	39	12	–	276	–	276

(secondary reporting format, in K €)

Aside from reasonably relatable assets the segment “Other” contains all assets that can not be allocated on a reasonable basis (e.g. securities, deferred tax assets).

25. Financial instruments

Fair value The net book value of financial instruments (e.g. cash and cash equivalents, trade accounts receivable and trade accounts payable, available-for-sale securities, other receivables and payables) essentially equals their fair value. In variance thereto, differences between net book value and fair value exist with regard to those securities held-to-maturity. The differences are described in Note 8.

Interest rate risks The interest bearing portion of cash and cash equivalents, as well as those securities held-to-maturity, result in interest rate risks. All investment forms have variable interest rates and are – with the exemption of securities held to maturity – invested on a short-term basis. Further investment forms that result in interest rate risks do not exist within the PFEIFFER VACUUM Group.

The remaining terms of financial instruments that result in interest rate risks are as follows:

Fiscal Year Ended December 31, 2006

	< 1 Year	1 – 2 Years	2 – 3 Years	3 – 4 Years	4 – 5 Years	> 5 Years	Total
Securities held to maturity	1,000	–	–	–	–	4,998	5,998
Cash and cash equivalents	75,354	–	–	–	–	–	75,354
Total	**76,354**	**–**	**–**	**–**	**–**	**4,998**	**81,352**

(in K €)

Fiscal Year Ended December 31, 2005

	< 1 Year	1 – 2 Years	2 – 3 Years	3 – 4 Years	4 – 5 Years	> 5 Years	Total
Securities held to maturity	3,000	1,002	–	–	–	4,998	9,000
Cash and cash equivalents	61,651	–	–	–	–	–	61,651
Total	**64,651**	**1,002**	**–**	**–**	**–**	**4,998**	**70,651**

(in K €)

Credit risks Due to the Company's heterogeneous customer structure and the fact that no single end customer accounts for more than 5 % of total sales, there are no material credit risk concentrations within the group. Credit risks are additionally minimized through a rigorous accounts receivable management and by monitoring our customers' payment patterns. Furthermore, deliveries to new customers are essentially made only after credit assessment, against payment in advance or credit limit. As a result, PFEIFFER VACUUM is able to keep the level of its allowance for doubtful accounts low, even in difficult economic times. The purchased securities consist predominantly of bank or corporate bonds of undoubted creditworthiness, making the credit risk minimal here as well.

Liquidity risks Due to the above-average level of cash and cash equivalents, no liquidity risks can be identified.

Foreign exchange rate risks 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 equity as part of other equity components, net of applicable taxes. These amounts are subsequently reclassified as earnings in the same period as the underlying transactions affect operating income.

For the fiscal years ended December 31, 2006, and 2005, 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 other equity components to earnings as a result of the discontinuance of cash flow hedges.

The accounting of derivative financial instruments is based upon the provisions of IAS 39, "Financial Instruments: Recognition and Measurement." 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 current assets for the period ended December 31, 2006 totaled K€ 417 and the Company recorded a corresponding unrealized gain of K€ 259 in other components of equity, net of tax of K€ 158. In fiscal 2005, the Company recorded a negative fair value of K€ 316 and an equity impact of K€ –196, net of tax of K€ 120.

The Company does not engage in speculative hedging for investment purposes. The maturities of all forward contracts are aligned with the date the cash receipts are anticipated to occur. As of December 31, 2006, and December 31, 2005, no contracts held by the Company had a maturity date greater than one year. Accordingly, the Company expects the entire asset of K€ 417 to be reclassified to earnings during fiscal 2007.

As of December 31, 2006, and 2005, the notional amounts of the U.S.-Dollar forward contracts were € 11.2 million and € 10.3 million, respectively. The Company performs ongoing credit evaluations of the parties to these contracts and enters into contracts only with well-established financial institutions.

26. Earnings per share

Computation of Earnings* per Share

	2006	2005
Net income from continuing operations (in K €)	29,624	23,901
Net income (in K €)	29,624	22,907
Weighted average number of shares	8,728,672	8,690,524
Number of conversion rights	–	–
Adjusted weighted average number of shares	8,728,672	8,690,524
Earnings per share (in €)		
Earnings from continuing operations per share (basic/diluted)	3.39	2.75
Earnings per share (basic/diluted)	3.39	2.64

* Attributable to PFEIFFER VACUUM TECHNOLOGY AG shareholders

The share options granted to employees were antidilutive in 2005 because the exercise price was higher than the quoted price of the Company's ordinary shares. As of December 31, 2006, all share options had been exercised.

There were no transactions with ordinary shares or issued ordinary shares during the period between the balance sheet date of December 31, 2006, and the preparation of the Consolidated Financial Statements.

The above mentioned weighted average number of shares was used in computing basic and diluted earnings per share from discontinued operations for the fiscal year ended December 31, 2005. Given losses from discontinued operations in the amount of K € 994 in fiscal 2005, the losses from discontinued operations per share were € 0.11 (basic and diluted).

27. Discontinued operations

In fiscal 2005, the Management Board committed to a plan to dispose of the DVD business, having obtained the required Supervisory Board approval in order to terminate this activity. Accordingly, the DVD business as part of the Germany segment is reflected as a discontinued operation.

In the prior year, the Company had sold at auction the fixed assets and 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 from Discontinued Operations

	2006	2005
Loss from discontinued operations before income tax benefit	–	–1,208
Income tax benefit	–	352
Net loss from discontinued operations	**–**	–856
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
Income tax benefit	–	436
Net total loss from discontinued operations	**–**	–994

(in K €)

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

As of December 31, 2006, and 2005, there were no assets or liabilities from discontinued operations.

Additional notes and supplemental information

28. Related party disclosures

Related party transactions predominantly consist of all transactions with those companies included in the Consolidated Financial Statements. These transactions are carried out at conditions that are usual and customary in the market and are entirely eliminated during the consolidation process. There is therefore no impact on financial position or results. PFEIFFER VACUUM does not have holdings in any jointly controlled or associated entities. Furthermore, no factual control exists with respect to special purpose entities.

Please refer to Notes 32 and 33 regarding the compensation paid to members of the Management and Supervisory Boards as well as regarding potential transactions with members of these corporate bodies. The members of the Supervisory Board do not provide material individual services for the Group or any of it’s companies. In contrast thereto, the employees’ representatives on the Supervisory Board receive salaries under the rules of the respective employment contract for their work at the Company.

On December 31, 2006, all members of the Management and Supervisory Boards held a total of 15,077 shares and 400 ADRs of the Company (December 31, 2005: 14,020 shares and 200 ADRs). Thus, the amount of the holdings of members of corporate bodies is negligible.

29. Events after the balance sheet date
Since the beginning of the 2007 fiscal year there have not been any significant changes in the Company's position or the industry environment.

30. Personnel expenses

Personnel Expenses from Continuing Operations

	2006	2005
Wages and salaries	38,353	35,797
Social security, pension and other benefit cost	8,892	8,157
Thereof for pensions	2,262	1,520
Total	**47,245**	43,954

(in K €)

The loss from discontinued operations in fiscal 2005 includes personnel expenses in the amount of K € 371.

31. Number of employees
On December 31, 2006, and 2005, the number of employees (continuing operations) was as follows:

Number of Employees

	2006	2005
Annual average		
Male	560	562
Female	125	129
Total	**685**	691
Balance sheet date		
Male	557	564
Female	127	127
Total	**684**	691

As of December 31, 2006, and 2005, there were no employees engaged in discontinued operations. On annual average, there were no employees engaged in discontinued operations (2005: 6).

32. Management Board

During fiscal 2006 and 2005, the Management Board of the parent company PFEIFFER VACUUM TECHNOLOGY AG consisted of:

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

The aggregate amount of compensation paid to all active members of the Management Board was € 1.1 million for fiscal 2006 and 2005, respectively. Pursuant to § 289 Sub-Para. 1 no. 5 HGB the compensation paid to the members of Management Board is detailed in the compensation report (part of MD & A).

33. Supervisory Board

Pursuant to §§ 96, Sub-Para. 1, § 101, Sub-Para. 1, AktG, § 4, German One-Third Participation Act ("DrittelbG") of 2004, and § 9, Sub-para. 1, Articles of Association and Bylaws, the Supervisory Board shall comprise four members elected by the Annual Shareholders Meeting and two members elected by the Company's employees. The term of office of the members of the Supervisory Board ended on May 31, 2006, the day of the Annual Shareholders' Meeting. At the Shareholders' Meeting, the representatives were newly elected, while the members elected by the Company's employees were newly elected on May 10, 2006.

The Supervisory Board comprises of the following persons:

- Dr. Michael Oltmanns (Chairman), Attorney at Law and Tax Advisor
  Further supervisory board seats:
  – HPC AG, Weinheim, Germany (chairman)
  – Jetter AG, Ludwigsburg, Germany (chairman)
  – Merkur Bank KGaA, Munich, Germany (vice chairman)
  – Scholz AG, Essingen, Germany (chairman)
- Götz Timmerbeil (Vice Chairman since May 31, 2006, and chairman of the Audit Committee), Certified Public Accountant and Tax Advisor
- Prof. Dr. Klaus-Jürgen Kügler (Vice Chairman, until May 31, 2006), Dean at the Giessen-Friedberg Technical University
- Michael J. Anderson, Investment Banker
- Helmut Bernhardt (Employee representative, since May 31, 2006), Development Engineer
- Manfred Gath (Employee representative, since May 31, 2006), Chairman of the Employee Council
- Wilfried Glaum (since may 31, 2006), Business Administrator
- Edgar Keller (Employee representative, until May 31, 2006), Commercial Staff Member
- Günter Schneider (Employee representative, until May 31, 2006), former Chairman of the Employee Council

Pursuant to § 289 Sub-Para. 2 no. 5 HGB the compensation paid to the members of the Supervisory Board is detailed in the compensation report (part of MD & A).

34. Exempting provision under § 264 (3), HGB

PFEIFFER VACUUM GMBH of Asslar, is included in the Consolidated Financial Statements of PFEIFFER VACUUM TECHNOLOGY AG. Accordingly, this company has made use of the exempting provision under § 264 (3), HGB.

35. Audit fees for independent auditors

The expenses for fiscal 2006 and 2005 for services rendered by the auditor of the Consolidated Financial Statements as recorded in the statements of income were as follows:

Audit Fees for the Auditor of the Consolidated Financial Statements

	2006	2005
Fees resulting from:		
Audit services	564	407
Other certification and consulting services	13	25
Tax advisory	46	45
Other services	17	13
Total	**640**	490

(in K €)

36. German corporate governance code/declaration pursuant to § 161 AktG

Pursuant to § 161 AktG, the Management and Supervisory Boards issued the statement of compliance for the year 2006 in December 2006. 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 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 in the compensation report. (Point 5.4.7 of the Code)

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

37. 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."

38. Authorization for issuance of Consolidated Financial Statements

Through a resolution by the Management Board on February 23, 2007, the Consolidated Financial Statements were authorized for issuance.

Asslar, February 23, 2007

Management Board

Wolfgang Dondorf Manfred Bender

Independent Auditors' Report

We have audited the Consolidated Financial Statements prepared by PFEIFFER VACUUM TECHNOLOGY AG, Asslar, comprising the income statement, the balance sheet, statement of changes in equity, cash flow statement and the notes to the Consolidated Financial Statements, together with the group management report for the fiscal year from January 1 to December 31, 2006. The preparation of the Consolidated Financial Statements and the group management report in accordance with IFRSs as adopted by the EU, and the additional requirements of German commercial law pursuant to Sec. 315a (1) HGB are the responsibility of the parent company's management. Our responsibility is to express an opinion on the Consolidated Financial Statements and on the group management report based on our audit.

We conducted our audit of the Consolidated Financial Statements in accordance with Sec. 317 HGB 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 misstatements materially affecting the presentation of the net assets, financial position and results of operations in the Consolidated Financial Statements in accordance with the applicable financial reporting framework and in the group management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the Consolidated Financial Statements and the group management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of those entities included in consolidation, the determination of entities to be included in consolidation, the accounting and consolidation principles used and significant estimates made by management, as well as evaluating the overall presentation of the Consolidated Financial Statements and the group management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

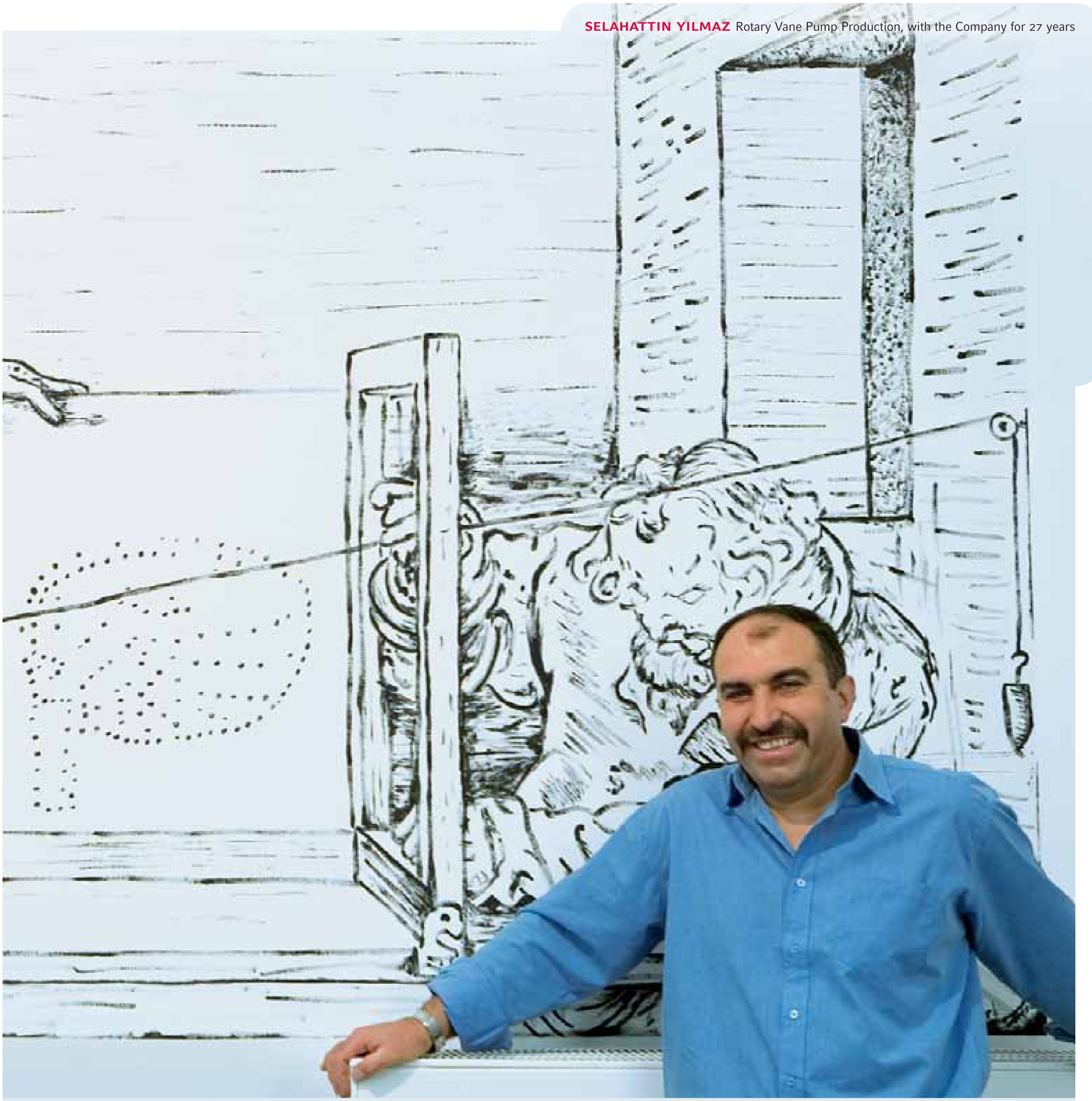
In our opinion, based on the findings of our audit, the Consolidated Financial Statements comply with IFRSs as adopted by the EU, the additional requirements of German commercial law pursuant to Sec. 315a (1) HGB and give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with these requirements. The group management report is consistent with the Consolidated Financial Statements and as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development.

Eschborn/Frankfurt am Main, March 7, 2007

Ernst & Young AG
Wirtschaftsprüfungsgesellschaft
Steuerberatungsgesellschaft

Klingelhöfer	Pott
Wirtschaftsprüfer	Wirtschaftsprüferin
(German Public Auditor)	(German Public Auditor)

Dürer's perspective. This copperplate engraving from the year 1525 shows how to draw a perspectively correct picture of an object. To do so, the image of the lute is captured dot by dot. An assistant holds the string, which is kept taut by means of a counterweight, at a certain point on the lute. The string now passes through the "window frame" at a certain point. This point is noted by shifting a vertical and a horizontal rod in such a manner that they meet precisely at the string. The string is then removed, the "window frame" is folded closed with the tracing paper, and a dot is marked at the intersection of the two rods. After many repetitions, the dots thus created are connected by lines.



FURTHER INFORMATION

The Power of Zero [AN EXCURSION]

Zero. Like vacuum, it's something that deals with nothing.
It is precisely nothing, or nothingness, that keeps everything together – the vacuum between the stars, in which the heavenly bodies make their way through space. Only through the discovery of zero was it possible to write large numbers – thus paving the way for mathematics.

Any number of inventions would be inconceivable without the world of numbers. And mathematical thinking was also crucial to the development of vacuum technology. With zero – nothing – likely serving as the most important number of all!

It took quite some time before zero was discovered. Perhaps due to the seemingly plausible yet incorrect notion that "it is not possible to use 'something' to represent 'nothing.'" There were at least two historic occasions when humanity came tantalizingly close to discovering zero – yet failed to capture it.

4,000 years ago, the Babylonians had a wonderful system of numerals, a true positional notation system. Something akin to our decimal system today, based not upon 10 but upon 60. No one knows why they chose 60. Yet we are still impacted by their decision today: We divide an hour into 60 minutes and a minute into 60 seconds. The 360 degrees that make up a circle, too, ultimately date back to this. They wrote the numerals 1, 2, 3, ..., 59 in cuneiform characters and denoted each numeral as a combination of ones and tens characters. However the crucial aspect is that the numerals had differing values depending upon their positioning. This is the same as in our decimal system, in which the numeral 7 has a value of only 7 if it stands in the ones position. If it stands in the tens position, it counts as 70, in the hundreds position as 700, and so on. The Babylonian system was analogous – with the only exception being that the next to the last position had a value of 60, the position before it 60 times 60, or 3,600. In other words: In this sexagesimal, or 60-place, system the number 537 means 5 times 3,600 plus 3 times 60 plus 7, or 18,187. The system was nearly perfect. Only one tiny thing was still missing: Zero!

The second time that humanity should have been able to notice that zero is important can clearly be seen in connection with the Romans. Since it is totally impossible to perform arithmetic calculations with Roman numerals, the Romans used an abacus to do these calculations: This "tool" consists of a number of small rods on which small beads slide. The rods represent the places in a number: The uppermost rod stands for ones, the second uppermost for tens, followed by hundreds, and so on. The numerals are denoted by the beads; they are initially located at the edge and are activated by pushing them into the center. The number of beads in the center represents the numeral in question. One position denotes a value of zero, i.e. when all of the beads are at the edge – that is the way we can interpret this today.

At some point in history, zero was then finally discovered in India. The oldest known document to use zero dates from the year 876. In this document, zero is used quite matter-of-factly to write the numbers 270 and 50. Right from the very beginning, by the way, zero was represented by a small circle. And from India, zero went on to conquest the world. The Arabs brought it to Europe. In the year 1202, Venetian mathematician Fibonacci published a book entitled "Liber Abaci" to celebrate the decimal system, i.e. zero, and to document its uses in mathematical calculations. This book begins programmatically and full of – mathematical – emphasis: The nine Indian figures are 9 8 7 6 5 4 3 2 1. Using these nine figures and the numeral 0, which the Arabs call zephirum, it is possible to write any number.

The first advantage of a positional notation system that includes zero is unmistakably clear to see: It is possible to use only a few numerals to denote numbers of any desired magnitude. This is a huge advantage over the Roman system, for example: The Romans had to invent a new numeral for each new magnitude: I, X, C, M – and the system actually ends at M. The Romans had to use twenty Ms to denote the number 20,000. The Indian system does that quite comfortably: By merely "adding on" zeros – i.e. seemingly nothing – it is possible to produce gigantic numbers!

This book indicates a second major advantage: Arithmetic calculations. We all know how summing works: You first add the ones column, then the tens column, then the hundreds, and so on. It might be necessary to carry a number forward, but that does not alter the fact that all we have to do is add up numerals – i.e. very small numbers. The advantage is even clearer in connection with multiplication. We multiply the product of large numbers numeral by numeral and add up the subtotals. We only need to know the multiplication tables up to ten and then perform a bid of addition. This is all that's necessary!

And zero experienced one further great moment in history: On March 15, 1679, Gottfried Wilhelm Leibniz invented the binary system. A positional notation system that requires only the numerals one and zero. It is possible to denote any desired number as a sequence of zeros and ones. There is no easier way to add up numbers than with this method. Multiplication, too, is as easy as can be. Because in the binary system, the multiplication tables are reduced to a single problem: One times one equals one. Without the binary system, there would be no computer, without zero there would be no binary system. So: Without zero there would be no computer.

Professor Dr. Albrecht Beutelspacher
Director, Mathematikum Giessen

Product Portfolio

Vacuum

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

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

Vacuum generation

Turbopumps

The turbomolecular pump was invented at Pfeiffer nearly 50 years ago, and has since been steadily evolved. Turbopumps are the Company's most important products. These pumps are available in a wide range of sizes for all applications in the high- and ultra-high vacuum ranges.

Rotary vane pumps

Rotary vane pumps are employed as backing pumps for turbo and Roots pumps, in addition to being used as stand-alone pumps. We offer models for all applications in the low- and medium-vacuum ranges.

Product portfolio. Our extensive line of products and services ranges from individual components right through to complex vacuum systems. As a leading supplier in vacuum technology, we have the right vacuum solution for every application.

Vacuum generation	Turbopumps, rotary vane pumps, dry pumps, Roots pumps
Vacuum measurement and analysis equipment	Vacuum gauges and controllers, mass spectrometers, leak detectors
Installation elements	Fittings, flanges, valves
Vacuum systems	Vacuum pumping stations, leak detection systems, multi-stage vacuum systems

Product Portfolio

Dry pumps

A dry pump does not require lubricants in the pump chamber. This guarantees a high level of process purity and very good environmental compatibility. We have developed a line of dry pumps for employment in the semiconductor industry, in freeze-drying and in metallurgy, for example.

Roots pumps

We provide a complete line of Roots pumps for applications in the low- and medium-vacuum ranges. These pumps are characterized by an optimum ratio between pumping speed and physical size.

Vacuum measurement and analysis equipment

Vacuum gauges and controllers

In addition to vacuum generation pumps, we also offer a variety of powerful vacuum measurement and analysis equipment.

Mass spectrometers

In industrial production processes, it is often not only important to know “how much” is in something, but also “what it is.” With the aid of a mass spectrometer, it is possible to analyze the composition of a gas.

Leak detectors

Our helium leak detectors enable troublesome, quality-reducing leaks in products and processes to be identified. These devices are employed, for example, for quality assurance in building and operating vacuum systems, refrigerators, air conditioning systems, automotive fuel tanks and brake lines.

Installation elements

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

Vacuum systems

TurboCube™ pumping stations

In addition to stand-alone pumps, we also produce ready-to-run pumping stations for analytical applications and research & development needs. These TurboCube™ pumping stations are modularly designed and essentially consist of a turbopump, a backing pump, a vacuum gauge, as well as a controller.

CombiLine™ pumping stations

We also offer a broad range of CombiLine™ pumping stations. In addition to our proven standard pumping stations, in which various sizes of Roots pumps are combined with rotary vane and dry pumps as backing pumps, we also provide custom solutions for specific processes.

Leak detection systems

PFEIFFER VACUUM develops and manufactures complete vacuum systems for customer-specific processes, such as leak testing of components for applications in the automotive industry, of pressure vessels or in the food industry. The products in this category also include helium leak detection systems.

Vacu² multi-stage vacuum processes

Together with die casting specialists, PFEIFFER VACUUM has made a crucial advance in die casting technology. The purpose of vacuum in a die casting system is to evacuate a given volume of air from the mold cavity and the shot sleeve within the shortest possible period of time.

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Index

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Maik Scharfscheer, Frankfurt/Main

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With thanks to Mathematikum Giessen e. V. for its cordial support.

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

Financial Glossary →

In our financial glossary you will find formulas for calculating the key performance indicators and ratios, as well as definitions of financial terms.

Financial Glossary

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

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

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

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

Current assets ratio
Current Assets : Current Liabilities x 100

Dividend yield
Dividend : Trading Price x 100

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

Free-float
Broadly held shares

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

Gross profit
Net sales less cost of sales

Market capitalization
Number of Shares x Trading Price

Operating profit (EBIT)
Earnings before interest and taxes

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

Research & development expense ratio
R & D Expenses : Net Sales x 100

Return on equity
Net Income : Shareholders' Equity x 100

Return on Capital Employed (ROCE)
Ratio between operating profit and the total of property, plant and equipment plus current assets less current liabilities

Financial Calendar 2007

> 2006 Annual Results
Thursday, March 29, 2007

> 1st Quarter 2007 Results
Thursday, May 3, 2007

> 2nd Quarter 2007/1st Half Year 2007 Results
Tuesday, August 7, 2007

> 3rd Quarter 2007/9-Month 2007 Results
Tuesday, November 6, 2007

> 2007 Annual Shareholders Meeting
Thursday, May 31, 2007, 2:00 P.M.,
Wetzlar Municipal Hall

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