



A World in Transition

ANNUAL REPORT 2003



Overview

KEY DATA EPCOS GROUP

Fiscal year ended September 30

	US GAAP	2003	2002	2001	2000	1999
New orders	€ million	1,250	1,216	1,363	2,426	1,311
	% change year on year	3	(11)	(44)	85	23
Net sales	€ million	1,272	1,312	1,905	1,855	1,141
	% change year on year	(3)	(31)	3	63	13
EBIT*	€ million	6	(72)	208	336	116
	as % of sales	0	(5)	11	18	10
Net income (loss)	€ million	7	(39)	149	240	76
	as % of sales	1	(3)	8	13	7
Net cash flow	€ million	45	(45)	(49)	138	(80)
including: Net cash provided by operating activities	€ million	136	84	327	491	102
Capital expenditures	€ million	98	131	349	353	180
	as % of sales	8	10	18	19	16
	as % of depreciation	63	77	180	253	176
Research and development expenses	€ million	69	94	94	82	56
	as % of sales	5.4	7.2	4.9	4.4	4.9
Employees	at September 30	13,283	13,069	12,993	13,237	10,922
Shareholders' equity at September 30	€ million	639	642	695	625	277
Average return on equity	%	1	(6)	23	53	27
Shares outstanding at September 30,	million	65.3	65.3	65.3	65.3	62.0
Earnings per share	€	0.10	(0.59)	2.28	3.68	1.22

* Earnings before interest and tax

SALES BY INDUSTRIES

Fiscal 2003 in percent

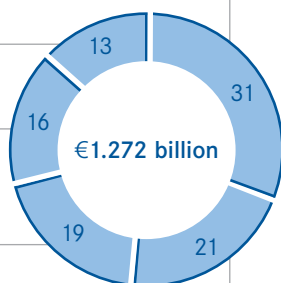
Telecom

Consumer

Others

Automotive

Industrial



SALES BY REGIONS

Fiscal 2003 in percent

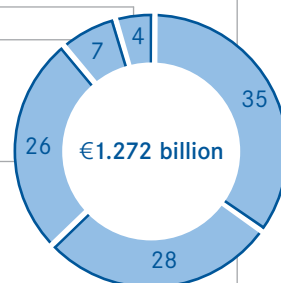
Europe without Germany

Others

NAFTA

Asia

Germany



BUSINESS SEGMENTS

New organization since October 1, 2002; figures back to 2001 adjusted for comparability (see page 42)

CAPACITORS		2003	2002	2001
Net sales	€ million	350	356	532
	% change year on year	(2)	(33)	-
EBIT	€ million	(11)	(15)	88
	as % of sales	(3)	(4)	16
Capital expenditures	€ million	19	37	76
Depreciation	€ million	31	28	31
Employees	at September 30	3,600	3,700	3,700

CERAMIC COMPONENTS		2003	2002	2001
Net sales	€ million	356	338	474
	% change year on year	5	(29)	-
EBIT	€ million	16	(10)	77
	as % of sales	4	(3)	16
Capital expenditures	€ million	26	24	63
Depreciation	€ million	30	31	28
Employees	at September 30	2,700	2,500	2,500

SAW COMPONENTS		2003	2002	2001
Net sales	€ million	404	471	635
	% change year on year	(14)	(26)	-
EBIT	€ million	17	(5)	29
	as % of sales	4	(1)	4
Capital expenditures	€ million	37	40	168
Depreciation	€ million	78	94	118
Employees	at September 30	2,200	2,500	2,600

FERRITES AND INDUCTORS		2003	2002	2001
Net sales	€ million	162	147	264
	% change year on year	10	(44)	-
EBIT	€ million	(16)	(43)	14
	as % of sales	(10)	(29)	5
Capital expenditures	€ million	12	21	37
Depreciation	€ million	15	15	15
Employees	at September 30	4,000	3,600	3,500

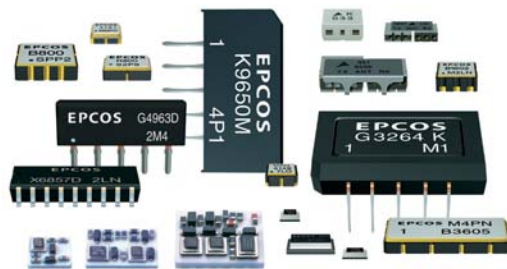
CAPACITORS are used throughout electrical engineering and electronics. They store electric charges to filter or regulate current and voltage in electronic circuitry. Our product portfolio covers aluminum electrolytic capacitors, tantalum capacitors, film capacitors, power capacitors and ultra-capacitors.



CERAMIC COMPONENTS are indispensable in automotive electronics and appliances as well as in telecommunications and entertainment electronics. They filter electrical signals, measure physical quantities, such as temperature, and protect electronic circuitry. Our product portfolio covers thermistors, sensors, varistors, multilayer ceramic capacitors, surge arresters and piezo actuators.



SURFACE ACOUSTIC WAVE (SAW) COMPONENTS, integrated modules and microwave ceramic components are key components of modern information and communications. They are indispensable as filters and have a decisive impact on picture and sound quality in satellite receivers, TV, video and audio equipment, not to mention mobile phones. Our subsidiary Crystal Technology, Inc., is the world market leader in lithium niobate crystals and wafers, which are the raw materials for SAW components.



FERRITES concentrate electromagnetic fields to transmit electrical signals and power. Ferrite cores are at the heart of **INDUCTORS**, which are used, for example, in switch-mode power supplies for industrial and entertainment electronics as well as for information, communications and automotive electronics. Our product spectrum includes components that ensure electromagnetic compatibility (EMC).





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Dear shareholders and friends of the company,

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It is my pleasure to be able to start this letter with good news: EPCOS is making money again. In fiscal 2003, we posted positive EBIT of €6 million and a positive net cash flow of €45 million – and that although the global economy was subjected to unforeseeable stress and strain in the period under review. The war in Iraq and the impact of the SARS crisis were two of the main factors that added to the burden on a persistently sluggish economy.

In China, for example, sales of mobile phones and entertainment electronics products dropped sharply in early summer. Manufacturers responded immediately by reducing their production volumes and delaying or canceling their components orders. In addition, the weakening US dollar further intensified price erosion for EPCOS products. Selling prices fell on average by 12%, or about €170 million, in the fiscal year just ended. We now sell some of our products for only half the price that they commanded two years ago.

In my view, all these facts make our results appear all the more positive – especially if we remember that given the circumstances described, the moderate growth in sales that I anticipated could not be achieved.

The stock markets rewarded our performance and profitability. In 2003, the EPCOS share easily outperformed both the DAX index of Germany's top 30 blue-chip companies and the technology-oriented TecDAX. I hope that those who read these words were among those who were able to benefit from the success of our share.

Our return to positive earnings shows that our cost-cutting measures are having the desired effect. Even though sales were slightly lower than we had expected in 2003, we nevertheless more than met our savings target of €170 million. This success was made possible by the people who work for EPCOS around the globe. My sincere thanks go to them. Without their knowledge and dedication, their willingness to make sacrifices and accept painful cutbacks, this achievement would



not have been possible. These are the people who have made our purchasing offensive reality, relocated our production lines and optimized our processes. The Six Sigma campaign which we launched as part of our COMPETE program is also playing a part in improving the efficiency of our internal processes and has the energetic backing of the workforce.

Gerhard Pegam
President and CEO

For all our commitment to ongoing cost cutting, fears that we might neglect the innovative strength of our company are unfounded. We may have scaled back our research and development spending, but this still remains above our historical average of 4% to 5% of sales. Moreover, the success of our new products proves that we are on the right track. In the fiscal year just ended, not even an adverse economic climate kept us from winning new major customers and further improving our position in many markets.

Let us turn our attention to the future. Today, standard passive electronic components can be economically mass-produced in Central Europe only in exceptional cases. High wage and non-wage costs, combined with the less flexible working practices common in Germany in particular, place us at an acute competitive disadvantage. Today's markets are global markets. And competition from Asia, above all from China, has increased considerably. In our industry, EPCOS is the last remaining European player among the world's top ten manufacturers. For years, we managed to make up for the comparative disadvantage in labor costs with higher productivity, better service and innovative products. As our rivals in Asia catch up in these areas as well, we are now managing to do this less often.

We therefore have no alternative but to keep relocating some of our activities to countries with low labor costs, especially to Eastern Europe and China. My colleagues on the Management Board and I are fully aware that these measures will have very painful consequences for many of our employees and for the economic livelihood of the communities affected. None of this, however, alters our

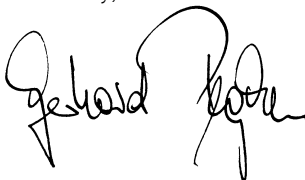
mandate to safeguard the success of the company as a whole. And that means that EPCOS must keep improving its cost structures. The rigorous cost and cash flow management successfully practised in 2003 will continue to command top priority in fiscal 2004 as well.

But as well as cost benefits, growth opportunities more than anything else are driving us to Asia – just think of the billions of people whose steadily rising demand and purchasing power are driving economic growth in these countries! Opportunities for EPCOS are opening up in Asia, which we can only exploit if we have a strong local presence, close to our customers. For this reason, we will keep strengthening our position in these countries.

Europe nevertheless remains an important market for us. Two of the industries in which EPCOS is particularly successful – industrial and automotive electronics – have deep roots here. Indeed, automotive electronics is currently our fastest-growing business. In this market segment more than any other, innovative strength, outstanding quality and efficient logistics are crucially important. The scope of our activities in Europe hinges on our future performance in these areas. On many fronts, promising prospects are opening up, which we will systematically explore and follow up.

In closing, let me assure you that we are doing everything in our power to sustain and improve the positive earnings situation that we attained in the past fiscal year. I am confident that we will reach this goal and sincerely hope that in reading this letter, you will have gained a sense of my personal optimism. Please remain loyal to EPCOS. It will be worth it.

Sincerely,

A handwritten signature in black ink, appearing to read 'Gerhard Pegam', with a stylized flourish at the end.

Gerhard Pegam
Munich, December 2003

Stock markets increasingly optimistic

Investors' fears of recession continued to weigh heavily on the stock markets in the first half of fiscal 2003. The war in Iraq added to the mood of uncertainty. The turnaround came in the second half, as a more optimistic view of the economy became widespread on the stock markets. Some cyclical stocks, including EPCOS, rebounded far more sharply than the key indexes. Whereas the EPCOS share doubled in price relative to its lows at the start of the year, the DAX index of Germany's top 30 blue-chip companies gained only 18% over the same period. The TecDAX and Nasdaq indexes, with their heavier emphasis on technology stocks, were up 42% and 52% respectively.

The EPCOS share completed its move from the DAX 30 to the MDAX (in December 2002) and then to the TecDAX index (in March 2003) with little fluctuation. EPCOS accounts for about 8% of this newly created technology index, in which it ranks as a heavyweight and remains a focus of attention for the financial markets. Brisk stock exchange turnover reflects keen interest in the EPCOS share. By this criterion, our share ranks second in the TecDAX index and 32nd among all German stocks.

The structure of our shareholder groups changed in the course of the year. The proportion of private investors rose from 18% to 23%, while that of institutional investors fell from 57% to 52%. Shrinkage in the volume held by institutional investors is largely due to the fact that The Capital Group Companies, Inc., one of our largest investors, reduced its stake to less than 5%. The significant drop in EPCOS' **market capitalization** was cited as the reason for this decision. The investment company claimed that our share no longer belongs in its Large Cap Funds category. Other major EPCOS shareholders include the Deutsche Bank subsidiary DWS with nearly 5%, and Siemens and Matsushita with 12.5% each.

The regional structure of our shareholders shifted further in favor of Germany. The proportion of equity held by investors domiciled in Germany increased by three percentage points to 67%. British shareholders in particular – one of them being Capital – rolled back their EPCOS holdings from 15% to 5%. A good 6% of equity is held by shareholders domiciled in the United States.

Market capitalization

indicates the current value of a company on the stock market. It is calculated by multiplying the current share price by the number of shares issued.

An overview of **road shows** and conferences attended will be found at www.epcos.com/roadshows

The number of banks covering the EPCOS share remained constant year on year at just under 40 – further evidence of the financial markets’ strong interest in EPCOS. However, fields of responsibility in analysis departments were reshuffled as the economy remained sluggish, stock markets declined and restructuring measures were taken at the various banks. Half of the banks in question changed their teams of analysts in the period under review. Whenever that happened, we had to take the time to familiarize the new analysts with our company and restore the knowledge that had effectively been lost. The better analysts know a company and the markets it serves, the more competently they can act as multipliers on the capital market.

The fact that investors and analysts scaled back their travel itineraries last year caused us to refocus our investor relations work. Staging road shows, we visited capital market players on location far more frequently than in 2002. We also extended the scope of information available to institutional and private investors at the EPCOS corporate website. For instance, private investors too can now follow conference calls with analysts and investors via the Internet. They can also retrieve information about analysts’ reports on EPCOS. In addition, new sections comprehensively covering corporate governance and corporate responsibility have been specially created at the EPCOS website.

FINANCIAL DIARY

Provisional dates

Information 1st quarter
[February 5, 2004](#)

Annual General Meeting
[February 11, 2004](#)

Information 2nd quarter
[May 7, 2004](#)

Information 3rd quarter
[August 3, 2004](#)

Information 4th quarter
[November 10, 2004](#)

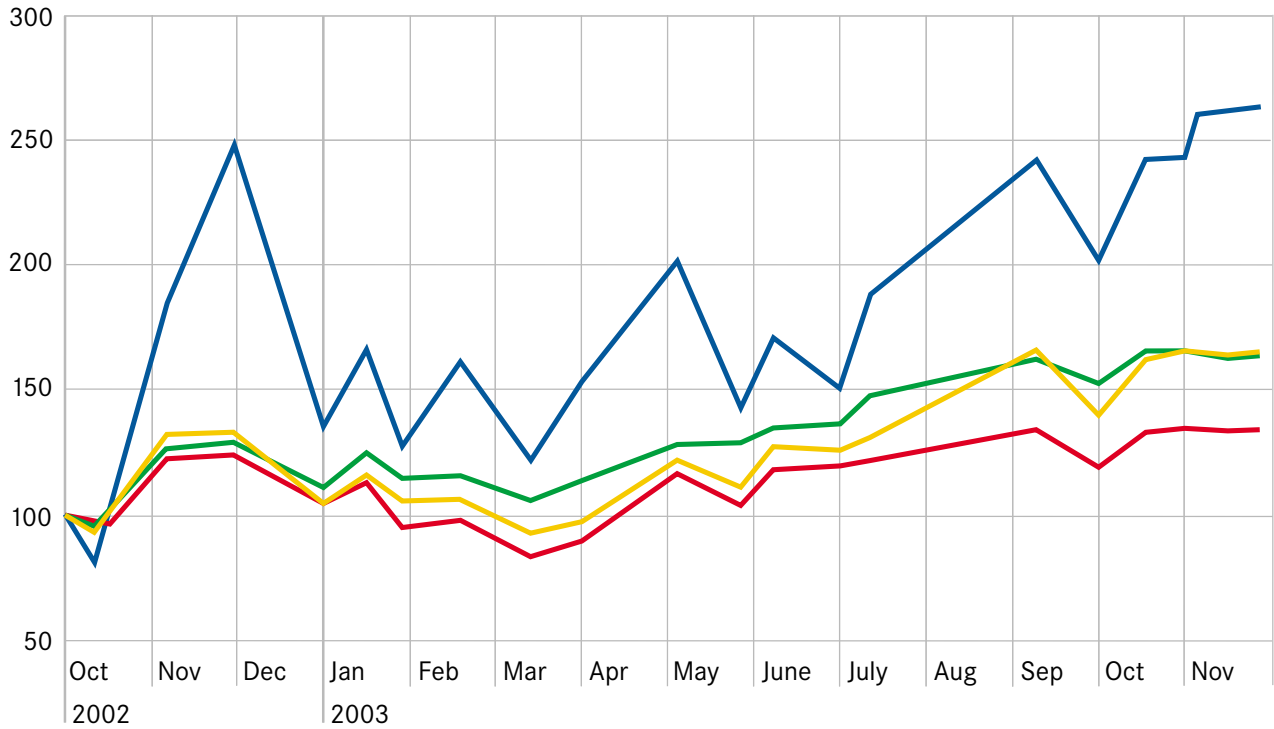
FACTS ABOUT THE EPCOS SHARE

Share price (Sept. 30, 2003)	€14.39
Average stock market turnover (shares per day)	747,000
Shares outstanding	65.3 million
Market capitalization (Sept. 30, 2003)	€939.7 million
TecDAX weighting	7.7%
Euro Stoxx Small Companies weighting	0.69%
MSCI Germany weighting	0.23%
Share capital	€65.3 million
ISIN	DE0005128003
Reuters symbol	EPCGn.DE
Bloomberg symbol	EPC GR
<i>New York listing, NYSE</i>	
ADR symbol	EPC.N
Ratio	1:1

PERFORMANCE OF THE EPCOS SHARE

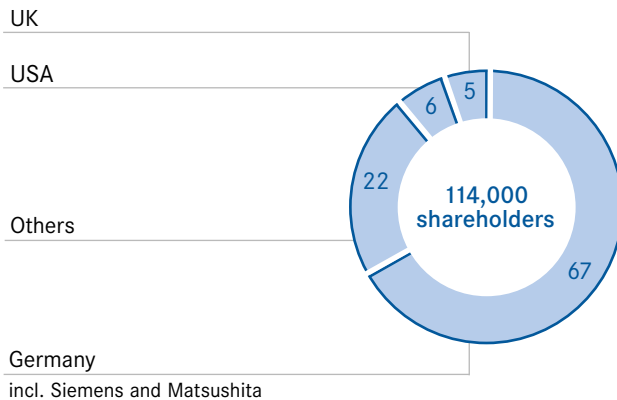
Indexed performance of the EPCOS share in comparison with DAX, TecDAX and NASDAQ

30.09.2002 = 100



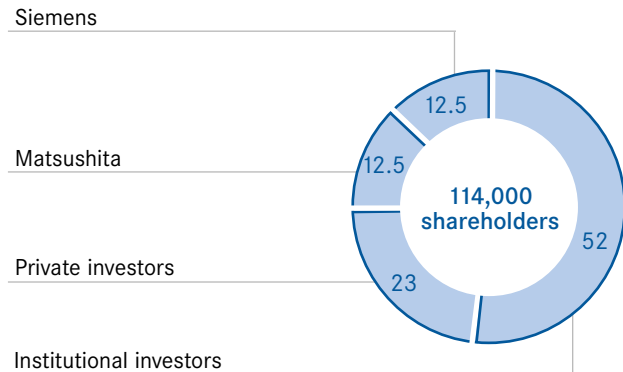
SHAREHOLDER STRUCTURE BY REGIONS

According to share register at September 30, 2003, in percent



SHAREHOLDER STRUCTURE BY GROUPS

According to share register at September 30, 2003, in percent



The preamble to last year's report to the Annual General Meeting ended with the words: "EPCOS is now, in terms of organizational structure and human resources, in better shape than it was a year ago and should be able to score more encouraging results again in the future, even if no fresh economic stimulus is forthcoming." Both the fears and the forecast expressed in that statement have come true. The economic stimulus failed to materialize, but EPCOS still made the turnaround and was back in the black at the end of fiscal 2003.

This return to positive earnings, despite slack demand and persistent, severe price erosion, was only possible because the Company pressed on with the ambitious program of cost-cutting and organizational change that it had launched in the preceding years. These efforts, coupled with relocation measures designed to keep us competitive, demanded great commitment on the part of employees and the Management Board alike. To some extent, they also brought hardships that are regrettable but inevitable in these times of constantly stiffening global competition.

Supervisory Board meetings and committees

During the fiscal year under review, the Supervisory Board was informed by the Management Board regularly, promptly and comprehensively on the Company's economic and financial development, risk position and risk management, and all material business plans and projects in written and oral reports. We were also provided with detailed explanations wherever business developments diverged significantly from defined plans and targets. All issues requiring the consent of the Supervisory Board were duly submitted. In addition, the Management Board and the Chief Executive Officer in particular remained in close contact with the Chairman of the Supervisory Board throughout the year in order to discuss material developments in the Company and forthcoming decisions. On the basis of this input, the Supervisory Board carefully monitored the conduct of the Company's business and fully discharged its consultative duty.

In the period under review, six ordinary meetings of the Supervisory Board were held. The cost-cutting programs and relocation measures mentioned above were discussed at these meetings, as were the resulting consequences for personnel policy. Topics such as the convertible bond issued in the summer and the



continuing deployment of SAP were likewise discussed in considerable depth with the Management Board. On several occasions, our agenda also included decisions concerning the further development of our corporate governance practice, details of which are provided in the *Report of the Management Board and Supervisory Board on corporate governance*.

Klaus Ziegler
Chairman of the
Supervisory Board

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At its September 2003 meeting, the Supervisory Board also approved the Management Board's budget and financial planning for fiscal 2004.

The Auditing Committee set up in September 2002 convened five times in the period under review. Its principal activities were to prepare approval of the financial statements of EPCOS AG and the consolidated financial statements by the Supervisory Board, to examine the quarterly financial statements, and to define the Company's relationship with the auditors.

The Presidency Committee met three times in fiscal 2003, primarily to assess the performance of the Management Board and define the latter's compensation.

The Mediation Committee established pursuant to § 27 Paragraph 3 of the German Co-Determination Act did not have to be convened.

No conflicts of interest concerning individual members of the Supervisory Board or its committees arose.

Membership of the Supervisory Board and Management Board

As announced in the last year's report of the Supervisory Board, Dr. Bodo Lüttge stepped down from the Management Board of EPCOS AG and went into retirement on March 31, 2003. Dr. Lüttge rendered outstanding service to EPCOS in floating the Company on the stock market and with his prudence and vigor as Chief Financial Officer. We would like to take this opportunity to thank him for his successful work.

On April 1, 2003, Dr. Wilfried Backes, who had been appointed to the Management Board in spring 2002, succeeded Dr. Lüttge as Chief Financial Officer of EPCOS AG and the EPCOS Group.

Financial statements

The financial statements of EPCOS AG and the consolidated financial statements for the year ended September 30, 2003, together with the associated management reports, have been audited and certified without reservation by KPMG Deutsche Treuhand-Gesellschaft AG Wirtschaftsprüfungsgesellschaft, Berlin and Frankfurt/Main. The Auditing Committee of the Supervisory Board and the Supervisory Board also examined the Company's financial records and management reports themselves.

The documents named above, KPMG's reports on auditing the financial statements of EPCOS AG and the consolidated financial statements, and the Management Board's proposal on application of net income were presented to all members of the Auditing Committee and the Supervisory Board in good time. These documents were thoroughly discussed in the presence and with the involvement of the auditors at both the meeting of the Auditing Committee on December 10, 2003, and the Supervisory Board's balance sheet meeting on the same day. The Auditing Committee and the Supervisory Board raised no objections and concurred in the findings of the final audit. In view of this approval, the financial statements prepared by the Management Board are accepted as submitted.

The Supervisory Board has examined and endorses the Management Board's proposal to carry forward net income from the fiscal year just ended.

The Supervisory Board thanks the employees, the Works Council and the Management Board for their hard work during the period under review.

Munich, December 2003



Klaus Ziegler
Chairman of the Supervisory Board

Report of the Management Board and Supervisory Board on corporate governance

Dear shareholders,

Confidence in our business policy depends considerably on the transparency, reliability and efficiency of our corporate governance and reporting procedures. Against this background, we closely followed the public debate on corporate governance during the past fiscal year as well. In the light of the findings gained, we reviewed and improved company practice once again.

Corporate governance at EPCOS AG is based on German stock corporation law, which prescribes three decision-making and governing bodies, i.e. the Annual General Meeting, the Supervisory Board and the Management Board, for the Company, and on independent audits of the financial statements. As our stock is also listed on the New York Stock Exchange, United States capital market legislation, such as the Sarbanes-Oxley Act, which became law in 2002, is also binding on us. EPCOS' corporate governance policy satisfies these statutory requirements and largely coincides with the recommendations of the German Corporate Governance Code. Beyond this, we have adopted many of the Code's optional suggestions.

Exercise of voting rights

The Annual General Meeting decides on all issues assigned to it by law, particularly the appropriation of profits, appointment of auditors, and all changes in capital. The principle of one share, one vote applies.

The Management Board has set up a Proxy Committee which any shareholder can authorize to exercise his or her voting rights in accordance with instructions. Invitations to the Annual General Meeting with accompanying documents as well as the Annual Report are published at the EPCOS corporate website. All these documents will also be sent by e-mail on request.

To further facilitate attendance at the Annual General Meeting, we will propose to the Annual General Meeting on February 11, 2004, that the Articles of Association be amended to give shareholders additional online options to submit registrations

for the Annual General Meeting and to grant authorization to the Proxy Committee via the Internet in particular. From 2005, it should also be possible to broadcast the general debate at the Annual General Meeting over the Internet if the Annual General Meeting on February 11, 2004, decides to amend the Articles of Association accordingly.

Monitoring of the Management Board by the Supervisory Board

The Management Board, which directs EPCOS AG and the EPCOS Group, is monitored and advised by the Supervisory Board. The Management Board informs the Supervisory Board regularly and in good time on issues of strategy, planning, business development, financial position and assets, and entrepreneurial risks relevant to the Company as a whole. Certain Management Board decisions of material significance, such as the annual plan and the acquisition of companies, require the consent of the Supervisory Board. This also applies to transactions between the Company and members of the Management Board.

Both the financial statements of EPCOS AG and the consolidated financial statements, for which the Management Board as a whole is responsible, must be approved by the Supervisory Board. The Supervisory Board has set up an Auditing Committee comprising several of its members, which prepares approval by a plenary session of the Supervisory Board and also examines the quarterly financial statements. The members of the Auditing Committee are independent as defined by the US Securities Exchange Commission (SEC) regulations relating to the Sarbanes-Oxley Act that are relevant to EPCOS.

The Supervisory Board has likewise set up a Presidency Committee comprising several of its members, which is responsible for defining the terms of employment and compensation for members of the Management Board. The Presidency Committee also prepares the appointment and dismissal of members of the Management Board by plenary sessions of the Supervisory Board.

Independent auditing of financial statements

The auditors appointed by the Annual General Meeting examine the financial statements of EPCOS AG and the consolidated financial statements. They also check the quarterly financial statements. The Auditing Committee of the Supervisory Board commissions the auditors. It also defines the focus of auditing

work and the compensation of the auditors, and monitors their independence. On appointment, the auditors are obliged by the Auditing Committee to disclose without delay any grounds for bias or disqualification. We have also made a binding ruling that auditors may only be entrusted with consulting work to the extent permitted by the Auditing Committee.

Transparency

EPCOS first published individualized breakdowns of compensation paid to members of the Management Board and Supervisory Board in the Annual Report for 2002. In addition, key information on the compensation system for the Management Board, including the structure of stock option plans, will be published at our corporate website and explained in detail in the Annual Report. Information will also be provided on the value of stock options held by the members of the Management Board.

Exceptions to the recommendations of the Governance Code

The Management Board and the Supervisory Board have issued the following Declaration of Conformity with the German Corporate Governance Code simultaneously with this corporate governance report.

“In the period since our last Declaration of Conformity was issued on October 16, 2002, EPCOS has complied and continues to comply with the recommendations of the Government Commission on the German Corporate Governance Code (in the version issued May 21, 2003) with the following exceptions, some of which were only temporary:

- Compensation of the members of the Supervisory Board does not contain any variable component linked to the Company’s performance (Code section 5.4.5, paragraph 2, sentence 1). By keeping compensation separate from business success, every conceivable conflict of interests with the Supervisory Board’s monitoring functions is to be avoided.
- In the past, no extra compensation was paid to the chair and members of the Supervisory Board committees (Code section 5.4.5, paragraph 1, sentence 3). However, pursuant to a decision of the Annual General Meeting on February 12, 2003, the Articles of Association have been amended to include a provision on such compensation that now complies with the recommendation of the Code.

- The directors' and officers' liability insurance policies taken out by EPCOS AG for members of the Management Board and Supervisory Board do not provide for any deductibles (Code section 3.8, paragraph 2). This cover is provided under a group insurance policy to a wide range of executives inside and outside Germany, and it would be inappropriate to distinguish between members of the Boards and other executives. Moreover, deductibles are not customary outside Germany.
- The stock option plan approved by the Annual General Meeting in 1999 and the stock option plan that we will propose to the Annual General Meeting on February 11, 2004, are not based on comparative parameters (Code section 4.2.3, paragraph 2, sentence 2). It would be very difficult for EPCOS to define a relative performance target based on a comparative index, because no index for the passive electronic components industry is available on the market. Furthermore, independent attempts to compile an industry index suitable for comparison would not work owing to the small number of listed competitors.
- The Supervisory Board did not arrange for a possibility of limitation (cap) for extraordinary, unforeseen developments in connection with stock options granted to the Management Board to date (Code section 4.2.3, paragraph 2, sentence 4), because the 1999 stock option plan does not provide for such an arrangement. Consequently, the options granted to the Management Board in December 2003 from the last tranche of this stock option plan will likewise be issued without a cap. However, the 2004 stock option plan, which we will propose to the Annual General Meeting on February 11, 2004, expressly authorizes the Supervisory Board to introduce a cap corresponding to the Code recommendation."

Munich, December 10, 2003

On behalf of the Management Board

Gerhard Pegam
President and Chief Executive Officer

On behalf of the Supervisory Board

Klaus Ziegler
Chairman

Commitment to sustainability

Along with corporate governance, corporate responsibility today commands more attention than ever from governments, investors, customers, employees and the general public. Corporate responsibility means that a company contributes to successful development of the national economy while improving the living conditions of its employees, the local community and society as a whole.

The public reputation of an enterprise is its greatest intangible asset. Companies that enjoy the esteem and confidence of society find it easier to win and keep customers; they are appreciated by investors and exert a special attraction on talented and ambitious labor. Advantages like these are valuable, especially in these economically difficult times.

At the same time, the adverse business environment in particular limits the scope of corporate responsibility. It is invariably the basic economic conditions under which a company operates that ultimately determine the extent to which it can live up to its responsibility to society in the long term – for example, at a particular location. At EPCOS, this means that we cannot avoid relocating further activities from countries with high labor costs if we are to preserve the remaining jobs and business prospects at all. However, the jobs shed are not necessarily lost forever – they can give way to new jobs in a country with lower labor costs that in turn improve economic and living conditions at the new location. In the age of progressive globalization of companies, any assessment of corporate responsibility must consider the company in its entirety.

The importance that EPCOS attaches to corporate responsibility is laid down in our corporate principles, which were first published in 2000 shortly after the initial public offering. They document our conviction that corporate responsibility goes hand in hand with a commitment to society and permanent protection of the environment. This commitment has been reaffirmed not only in the revised corporate principles published in the past fiscal year, but also by recent activities. During the period under review, EPCOS joined the Global Compact initiative launched by the United Nations.

The Global Compact aims at a voluntary consensus among globally operating companies, institutions and organizations on fundamental ethical principles. These include protection of human rights and diffusion of environmentally friendly technologies.

Corporate citizenship

A global presence and cultural diversity shape the EPCOS Group and its business activities. We have employees, customers and partners in many countries of the world. Together, they make up a network characterized by the exchange of goods, services and knowledge, by intercultural cooperation and opportunities for individual advancement. At the same time, this network is engaged in permanent dialog with society. We thus gain new ideas and insight while arousing sympathy for, and creating confidence in, our company and its business policy.

Our **experts** cooperate in basic research with more than 50 renowned universities and institutes, such as the Max Planck and Fraunhofer Institutes in Germany, Pennsylvania State University in the United States, or the Institute of Microelectronics in Singapore.

We maintain close **contact** with educational institutions around the world. Wherever we do business, we see ourselves as a full member of society, as a good corporate citizen that actively contributes to the local community and its environment. We bear special responsibility toward our employees, whose drive and creativity we promote and whose safety, health and continuing education are matters of prime concern to us. Our regional companies are an integral part of the national economies that they serve. We also see ourselves as a good neighbor in the literal sense, purchasing goods and services locally, providing well-paid jobs by local standards, and paying local taxes. By buying local goods and services, we promote an efficient supply industry. Our local operations thus create new jobs indirectly as well.

Respect, honesty and integrity

To do justice to the diversity of cultures, values and moral precepts that we encounter, we base our conduct on high ethical standards. Our corporate culture and interpersonal relations within the company, with our customers and business associates are molded by values such as decency, loyalty, tolerance, and respect for local customs and the law. Each and every employee shares responsibility for EPCOS' image and for honoring our commitment to society.

Listings in sustainability indexes

A positive corporate image can prove to be a hidden asset. That's why good contacts with stakeholders are more valuable than ever. More and more private and institutional investors are now basing their investment decisions on whether and to what extent a company meets certain ethical and ecological standards. Sustainability indexes provide this target group with an important decision-making tool. Listings in sustainability indexes bring EPCOS closer to its goal of increasing the attractiveness and value of the company in the long term.

Fiscal 2003 was a successful year for EPCOS in this respect too. The company was listed in two sustainability indexes, DJSI STOXX and Smaller Europe SRI, for the first time ever. In the **DJSI STOXX** category *Electric Components & Equipment*, EPCOS satisfied all criteria for listing and scored above-average ratings in the *Economic*, *Environment* and *Social* dimensions. The *Economic* dimension assesses issues such as strategic planning, risk management and corporate governance. The *Environment* dimension covers environmentally friendly product design, environmental policy and awareness in management, and ecological efficiency. The *Social* dimension judges parameters such as personnel development and corporate citizenship at the company's various locations.

These listings are an independent endorsement of EPCOS as an enterprise that lives up to its commitment to sustained compliance with economic, social and environmental principles.

The Dow-Jones sustainability index **DJSI STOXX** is one of the most important of its kind and lists the top 20% of companies in a given industry in the Dow-Jones STOXX 600 Index.

Members of the Supervisory Board

Klaus Ziegler	Chairman. Member of the Advisory Council of EPCOS do Brasil Ltda., Gravataí, Brazil.
Jürgen Heraeus, Dr.	Chairman of the Supervisory Boards of Heraeus Holding GmbH, Messer Griesheim GmbH and mg technologies AG; Chairman of the Board of Directors of Argor-Heraeus S.A., Mendrisio, Switzerland; Member of the Supervisory Boards of Heidelberger Druckmaschinen AG and IKB Deutsche Industriebank AG.
Burkhard Ischler	Managing Director, Corporate Finance Mergers & Acquisitions, Siemens AG; Non-Executive Member of the Board of Directors of Demag Holding S.à.r.l., Luxembourg.
Anton Kathrein, Prof. Dr.	Deputy Chairman. Managing Director and General Partner, KATHREIN-Werke KG; Chairman of the Supervisory Boards of Erste Rosenheimer Privatbank AG and Grundig AG.
Werner Strohmayr	Member of the Management Board of Bayerische Landesbank; Chairman of the Supervisory Boards of Bürgerliches Brauhaus Ingolstadt AG, HUK-COBURG Leben AG and HUK-COBURG Krankenversicherung AG; Deputy Chairman of the Supervisory Boards of HUK-COBURG Allgemeine Versicherung AG and Software Design & Management AG; Member of the Supervisory Board of Deutsche Kreditbank AG.
Kunihisa Tachiiri	Associate Director, Matsushita Electric Industrial Co., Ltd., Tokyo, Japan.
Peter Hoffmann	Deputy Chairman. Deputy Chairman of EPCOS AG Works Council, Heidenheim facility.
Konrad Hollerieth	Corporate Director, Sales Distribution, EPCOS AG.
Hans Lux	Deputy Chairman of EPCOS AG Works Council, Munich facility.
Francis Oppenauer	General Counsel of IG Metall, Munich; Member of the Representatives' Assembly, BG Feinmechanik and Elektrotechnik; Member of the Management Committee, Labor Office, Munich.

Werner Pietsch

Corporate Director, Overseas Sales, EPCOS AG.

Andreas Strobel

First Authorized Representative, IG Metall, Heidenheim; Member of the Supervisory Board of Voith AG, Voith Paper Verwaltungs GmbH and Voith Turbo Verwaltungs GmbH.

Data at September 30, 2003

Compensation paid to the members of the Supervisory Board totaled €393,000 in fiscal 2003 (€280,000 in 2002). An individualized breakdown is given in the following table.

COMPENSATION

in €

	Fixed amounts	Attendance fees
Klaus Ziegler, Chairman	40,000	30,000
Jürgen Heraeus, Dr.	20,000	11,000
Burkhard Ischler	20,000	5,000
Anton Kathrein, Prof. Dr., Deputy Chairman	30,000	10,500
Werner Strohmayer	20,000	5,000
Kunihisa Tachiiri	20,000	5,000
Peter Hoffmann, Deputy Chairman	30,000	10,500
Konrad Hollerieth	20,000	6,000
Hans Lux	20,000	6,000
Francis Oppenauer	20,000	12,000
Werner Pietsch	20,000	6,000
Andreas Strobel	20,000	6,000

Pursuant to the Articles of Association, the members of the Supervisory Board received fixed compensation plus an attendance fee for every meeting of the Supervisory Board or of a Supervisory Board committee attended during the period under review. Individual fixed compensation is calculated according to the period of service as a member, chairman or deputy chairman of the Supervisory Board during the fiscal year (§ 11 Paragraph 2 of the Articles of Association).

Members of the Management Board

Gerhard Pegam

President and Chief Executive Officer. Sales, corporate communications, corporate planning, investor relations, Capacitors, Inductors and Film Capacitors Divisions, and business development Asia, Latin America and Europe; Member of the Supervisory Board of CeramTec AG; Chairman of the Boards of Directors of EPCOS KK, Yokohama, Japan, EPCOS (China) Investment Ltd., Shanghai, China, EPCOS (Shanghai) Ltd, Shanghai, China, and EPCOS Ltd., Hong Kong, China; Vice Chairman of the Board of Directors of EPCOS India Private Ltd., Nashik, India; Member of the Board of Directors of EPCOS ELECTRONIC COMPONENTS S.A., Málaga, Spain; Member of the Advisory Council, EPCOS do Brasil Ltda., Gravataí, Brazil.

Wilfried Backes, Dr.

Accounting, finance, legal department, information technology and logistics, human resources, internal audit, corporate services and business development NAFTA; Chairman of the Board of Directors of EPCOS Inc., Iselin, New Jersey, USA, and Crystal Technology, Inc., Palo Alto, California, USA; Vice Chairman of the Boards of Directors of EPCOS (China) Investment Ltd., Shanghai, China, and EPCOS (Shanghai) Ltd, Shanghai, China.

Bodo Lüttge, Dr.

Until March 31, 2003. Finance, accounting, legal department and investor relations.

Josef Unterlass

Technology and quality, corporate purchasing, Surface Acoustic Wave Components, Ceramic Components, Surge Arresters and Ferrites Divisions, and COMPETE program; Chairman of the Board of Directors of EPCOS PTE LTD, Singapore; Member of the Boards of Directors of EPCOS Ferrites Limited, Calcutta, India, and EPCOS SAS, Bordeaux, France; Member of the Shareholders' Committee of EPCOS OHG, Deutschlandsberg, Austria.

Data at September 30, 2003

Compensation paid to the members of the Management Board comprises fixed and variable components. As fixed cash compensation, which makes up about 40% of annual target compensation, they receive monthly salary payments, plus social security contributions.

Variable cash compensation is linked to business performance and makes up about 60% of annual target compensation. Half of this variable cash compensation is

calculated by multiplying a contractually stipulated basic amount by a corporate factor determined annually by the Supervisory Board in the light of business development. The other half is linked to reaching a target based on the economic value added in the EPCOS Group.

The Management Board members are also granted options for shares of EPCOS AG under the EPCOS stock option plan 1999 as a variable component with a long-term incentive effect and risk elements, as outlined in Note 11 to the consolidated financial statements.

The compensation package also includes a company pension and transitional payments, a company car, which may also be used privately, and business and personal liability and accident insurance cover.

Total cash compensation paid to the Management Board (including Dr. Lüttge, who retired on March 31, 2003) amounted to €2,544,000 in fiscal 2003 (€1,713,000 in 2002). This amount was composed of fixed components (including social security contributions, leasing payments for company cars and the cash value of insurance cover) totaling €1,066,000 (€946,000 in 2002) and variable components totaling €1,478,000 (€767,000 in 2002). In addition, a total of 185,000 stock options were granted. The weighted average fair value on the date of issue amounted to €6.87 per option.

An individualized breakdown of Management Board compensation is given in the following table (rounded to thousands of euros).

COMPENSATION				STOCK OPTIONS	
in €	Fixed	Variable	Total	Number	Exercise price (€)
Gerhard Pegam	345,000	417,000	762,000	60,000	15.23
Wilfried Backes, Dr.	341,000	429,000	770,000	25,000	15.23
Bodo Lüttge, Dr.	117,000	298,000	415,000	50,000	15.23
Josef Unterlass	263,000	334,000	597,000	50,000	15.23

Pensions for former members of the Management Board and their surviving dependents are being paid by Siemens AG or have already been settled. Transitional payments to former members of the Management Board totaled €526,000 in fiscal 2003.



EVOLUTION IN ELECTRONICS

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A WORLD IN TRANSITION

28

The evolution that began more than 100 years ago with the invention of induction coils and capacitors and continued with microelectronics 40 years ago is still nowhere near its peak. On the contrary, we are witnessing even faster advances that have catapulted us into a new epoch. In the age in which we live, information has become the fourth factor of production, equal in importance to raw materials, labor and capital. The convergence of computing and communications – two of the fundamental innovations of the 20th century – is creating the framework of our world in transition. Whatever the time, place or activity – at leisure or in the office, at home or on the move, in manufacturing or in commerce – all future scenarios, no matter how different, have one thing in common: they reveal the powerful influence of these innovative technologies and the underlying evolution in electronics on every facet of our lives.

Networked traffic Over the past 40 years, microelectronics has had a more profound impact on automotive engineering than on any other industry. Would you drive a car without ABS today? 25 years ago, antilock systems revolutionized braking – and substantially improved road safety. The number of auxiliary electronic systems inside vehicles is still growing rapidly. Intensive development work is being channeled into automatic distance detectors, for example, that warn drivers if they get too close to the vehicle in front. Other innovations include warning systems that prevent drivers from momentarily falling asleep at the wheel, and radar systems that apply a slight resistance to the steering wheel when the vehicle turns to warn the driver of a cyclist in the blind spot. But the need for greater safety and convenience is not the only force driving innovation. Automobiles are supposed to become more economical and kinder to the environment.

Telematics is a neologism representing the synthesis of computers and telecommunications. Traffic control systems, as used to prevent congestion on superhighways, are a prime application of telematics.

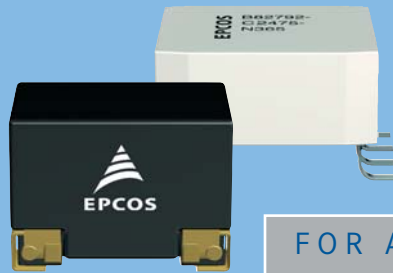
Pushing back the frontiers of mobility has always been a basic human urge. **Telematic services**, a growing variety of which will enter the market, are ideal for extending freedom of movement. Pocket-sized personal mobility planners are just around the corner. They will safely guide pedestrians and drivers alike to their destinations, reserve parking spaces, or find the fastest link from A to B by bus or train. In future, the various modes of transportation will be fully networked and integrated for the benefit of a mobile society.

One telematic innovation being tested at present is the electronic towbar for automatic traffic flows. The basic idea here is to form columns of vehicles on superhighways in which cars and trucks move in the same direction at constant speed and with fixed distances of three meters between them. If developers have their way, drivers will hardly have to think about steering, accelerating and braking.

NETWORKED TRAFFIC



EPCOS SOLUTIONS



FOR AUTOMOTIVE ELECTRONICS

From airbags through headup speedometer displays on the windshield to innovative steering systems, the electrical and electronics content of motor vehicles is rising steadily. Our CAN bus chokes are key components that enable electronic control units to exchange data at rates up to one million bits per second.

Namesake of the Danish
Viking king Harald
Bluetooth, who united the
countries of Scandinavia
into a kingdom about
1,000 years ago. The open
radio standard **Bluetooth**
does not stop at borders
either.

Integrated communications Recent developments in information and communications have been even more turbulent. Remember the early days of mobile communications, of portable phones weighing ten pounds and sagging shoulders? That was only 20 years ago, but has already faded from memory. Within a very short time, passive components of dwindling dimensions but rising performance have helped shrink mobile phones to today's convenient sizes. Thanks to extreme miniaturization of components by EPCOS and integration of them into complete modules, more and more functionality can now be packed into handsets without making them larger, bulkier or costlier. One out of ten mobile phones sold today has a built-in camera – and the tendency is rising.

Then there is a raft of services, including mass hits such SMS (short message service). Although mobile business may still be in its infancy, mobiles are now being used in pilot projects as interactive tickets for public transportation or input devices for paying parking fees online.

Today, hardly any high-end mobile phone is offered without a **Bluetooth** interface. Bluetooth permits wireless data interchange between electronic devices. A Bluetooth transceiver can thus be fitted to a bag tag so that travelers can track their luggage by mobile phone.

But communication is no longer restricted to the exchange of information between humans. Market researchers estimate that by 2005, there will be more devices than humans communicating with each other by mobile radio.

A promising future has also been forecast for Wi-Fi, a wireless broadband technology that can transmit data over a short range a hundred times faster than ISDN. More and more hotspots – Wi-Fi base stations – are being installed around the world in public places such as airports, hotels and coffee shops.

A genuine revolution will be unleashed when everyone and everything can communicate via the Internet. Many information processes will then run automatically in the background. Remote maintenance is already available for luxury cars, for example. And that is only the beginning.

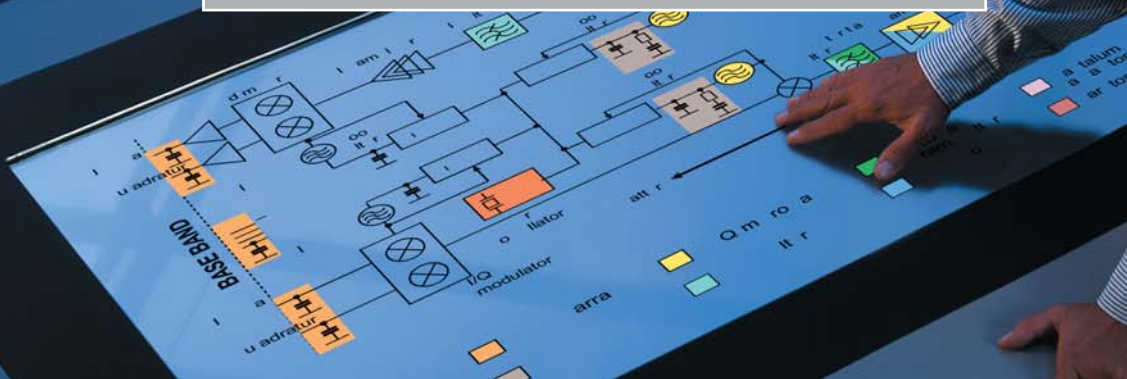
INTEGRATED COMMUNICATIONS

EPCOS SOLUTIONS



FOR INFORMATION AND COMMUNICATIONS

New mobile phones pack more and more functionality into the same compact dimensions. Extreme miniaturization of surface acoustic wave filters has been instrumental in shrinking electronic circuitry. Thanks to our CSSP technology, we can make components with a footprint of only 2×1.4 mm. In the receive and transmit sections of mobile phones, they ensure precise filtering of the frequency band and channels for talking and listening. Their high selectivity suppresses interference and ensures high transmission quality.



INDUSTRIAL NETWORKS



EPCOS SOLUTIONS



FOR INDUSTRIAL ELECTRONICS

Whether used in uninterruptible power supplies, frequency converters or network interface cards, aluminum electrolytic capacitors are passive components that have proved reliable and popular. They are distinguished by very high volumetric capacitance and high current-handling capacity. This makes them ideal for storing energy in power supplies for many industrial applications, for example.

Industrial networks Evolution in electronics has had a profound impact on manufacturing as well. Industrial production, once a series of isolated steps performed manually, is evolving into a totally networked process under computer control. Communication systems are becoming the lifelines of industrial machinery and production plant.

For example, information is exchanged via transponders, tiny electronic labels that transmit production data via mini antennas. Wireless data interchange is now reality in automobile production. Before the first metal sheet for a new car begins its journey through the factory, the production data for the vehicle is sent to a transponder on the bodywork cradle. The vehicle thus remains uniquely identifiable throughout the manufacturing process and can, for instance, tell production robots whether to fit seats with leather or fabric upholstery.

Networking is by no means restricted to machines on assembly lines, but can even link plants at different locations. The electronics content of production machinery is rising accordingly. Mobile radio is also moving from voice communication into the manufacturing environment. Fault reports, for example, are routed straight to the computer screen or handset display of the technician responsible. This allows faster troubleshooting and minimizes expensive downtimes in production.

Watching the architects of the industrial future at work as they design and plan **virtual reality** is an exciting experience. Just a few years from now, every factory manager should be able to access all manufacturing data for a production line or plant at the click of a mouse and see it in 3-D: machine utilization, product progress or materials flow. Not until the virtual product has rolled off the virtual production line is the real product approved for manufacture in the bricks-and-mortar factory. There, image processing sensor systems built into the machinery, for example, will recognize the colors of the parts passing through, scan their surfaces or measure cross-sections. In this real world, production processes will be able to monitor themselves, thus opening up new opportunities for further automation and cost cutting.

Virtual reality is being made even more realistic by the dramatic rise in computer power. Fascinating space journeys are just as conceivable as excursions into the world of molecules. Virtual travel guides will supply all the information desired. This progress is driven not only by sophisticated software, but also more powerful electronics.

The **Internet** as we know it is only the start. Virtual agents on the Net will put together and book personalized holidays, for example. Or they will look out for attractive real estate. What's more, to optimize costs, the bandwidth needed will be available at the press of a button.

Intelligent appliances Information networks are steadily reshaping the world of domestic appliances and entertainment electronics too.

Digital cameras send image data to computers by wireless links, while television sets will soon become springboards for plunging into the depths of the **Internet**. Smart technology is even finding its way into the kitchen. Touch a portable flat screen with your finger and you can set your air conditioning system to the desired temperature, lock the doors and activate the defrost program of your microwave - all from the comfort of your living room!

The more sensors fitted to domestic appliances, the more self-regulating the appliances become. Sensors enable dishwashers to recognize how clouded the dishwasher is and select the right program for a sparkling result. Sophisticated electronic controls are ousting conventional electromechanical switches from washing machines and dryers. As a result, these appliances consume less electricity and water but are more convenient to use. They may even add variety to the weekly menu: computers built into refrigerators can already suggest recipes for the ingredients stored.

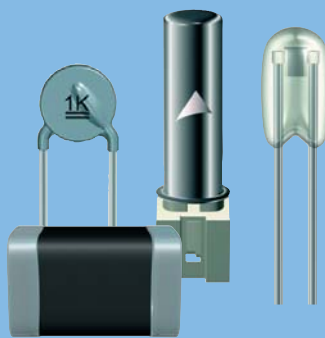
The list of innovations is endless. The growth potential of the passive electronic components industry - our industry - is just as vast. Whatever the target application in electrical engineering or electronics, capacitors, ceramic components, surface acoustic wave components, ferrites and inductors will always be needed to protect electronic circuitry, filter frequencies and store energy. EPCOS - just everywhere ...

Of course, not every scenario that is feasible will become reality. Innovations can only catch on if they create tangible benefits to users in their various situations in life. Benefits such as more personalization, more mobility, more convenience, more safety - in short, a better quality of life. Evolution in electronics is constantly opening up new ways and means of reaching these goals. As a trendsetter in technology, EPCOS offers the right products and solutions for this world in transition.

INTELLIGENT APPLIANCES



EPCOS SOLUTIONS



FOR CONSUMER ELECTRONICS

Installed in washing machines, dryers and refrigerators, NTC sensors measure temperature and do much to make modern household appliances more economical and convenient. Rugged sensors of glass-encapsulated design are ideal for high ambient temperatures in electric or microwave ovens, for instance.