SUCCESS IN FACTS AND FIGURES. Consolidated financial statements for fiscal 2000 with notes.

REPORT OF THE SUPERVISORY BOARD

Dear shareholders,

Your Company has faced many challenges in the first year since the initial public offering. The rapid pace of development in the passive components market, EPCOS' new status as an autonomous, publicly traded company, and its admission to the DAX index of Germany's top 30 blue-chip companies demanded considerable flexibility and commitment as well as the willingness to learn and innovate at both the operating and administrative levels. The Management Board and employees alike mastered these challenges with exemplary dedication and posted end-of-year results which are more than satisfactory. The Supervisory Board has been closely watching developments and come to the conclusion is that EPCOS is in good shape: your Company is well equipped for the future.

Supervisory Board meetings and committees

The Supervisory Board met six times during fiscal 2000. Throughout the year and at these six meetings in particular, the Management Board informed the Supervisory Board about the Company's general situation, all material business events and projects, and stock market developments in comprehensive written and oral reports. The Management Board also discussed and consulted with the Supervisory Board on these matters. The joint discussions naturally focused on key aspects of operating activities, such as coping with sales growth, the Management Board's corresponding investment policy, and restructuring of certain lines of business. But our agenda also addressed administrative issues, such as verification of the risk management system installed at EPCOS by the Management Board pursuant to § 91 of the German Stock Corporation Act. The Chairman of the Supervisory Board remained in close contact with the Management Board throughout the year. Neither the Presidency Committee nor the Mediation Committee formed pursuant to § 27 Paragraph 3 had to be convened during the period under review.

Members of the Supervisory Board and Management Board

In the late summer of 1999, all members of the Supervisory Board representing the shareholders, i.e. Dr. Volker Jung, Dr. Dietrich Botsch, Mr. Haruo Kawabata, Mr. Karl-Heinz Midunsky, Mr. Katsuro Sakakibara and Mr. Kazumasa Yoshida, relinquished their posts with effect from December 15, 1999, so that the Supervisory Board could be reconstituted in proportion to the equity conditions prevailing after the IPO. On October 12, 1999, an extraordinary shareholders' meeting held prior to the IPO unanimously elected Prof. Anton Kathrein, Dr. Jürgen Heraeus, Mr. Werner Strohmayr and Dr. Albrecht Schäfer to succeed four of the outgoing members and, in accordance with the articles of association, appointed Dr. Volker Jung and Mr. Seinosuke Kuraku to represent Siemens and Matsushita respectively on the Supervisory Board with effect from December 15, 1999. The terms of office of the members representing the employees prior to the IPO, i.e. Mr. Peter Hoffmann, Mr. Walter Nicolaus, Mr. Francis Oppenauer, Mr. Werner Pietsch, Mr. Nikolaus Schmidt and Mr. Andreas Strobel, ended

Dr. Volker Jung
Chairman of the
Supervisory Board

at the annual shareholders' meeting on March 28, 2000. As their successors, Mr. Peter Hoffmann, Mr. Francis Oppenauer, Mr. Werner Pietsch and Mr. Andreas Strobel were re-elected, and Mr. Konrad Hollerieth and Mr. Hans Lux elected for the first time, to the Supervisory Board in the late summer of 1999 in accordance with the Co-determination Act with effect from the annual shareholders' meeting in March 2000. At its meetings in December and February, the Supervisory Board thanked the members who had stood down for their valuable service. Following my reappointment to the Supervisory Board, I was unanimously elected Chairman again by the other members at our constituent meeting in December 1999. The composition of the Management Board did not change during the period under review.

Financial statements

The financial statements of EPCOS AG and the consolidated financial statements for the year ended September 30, 2000, and the management's discussion and analysis of EPCOS AG and the EPCOS Group have been audited and certified without reservation by KPMG Deutsche Treuhand-Gesellschaft AG Wirtschaftsprüfungsgesellschaft, Berlin and Frankfurt/Main. The Supervisory Board also examined the Company's financial records itself. The independent auditors' reports were presented to all members of the Supervisory Board and thoroughly discussed in the presence of the auditors at the balance sheet meeting on December 5, 2000. 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 endorses the Management Board's proposal to use part of the net income amounting to €66.08 million shown on the balance sheet as of September 30, 2000, to pay a dividend of €1 per ordinary share and to carry forward the remainder, including dividends attributable to treasury stock.

The report on relations with dependent companies during the period from October 1, 1999, to October 15, 1999, prepared in accordance with § 312 of the Stock Corporation Act was examined and certified without reservation by the independent auditors. After examining the report itself, the Supervisory Board raised no objections to the statements made by the Management Board and thus concurred with the auditors in their findings.

We would like to thank the Management Board, the Works Council and all employees of EPCOS AG for their commitment and hard work during the past fiscal year.

Munich, December 2000
On behalf of the Supervisory Board

Dr. Volker Jung

MEMBERS OF THE SUPERVISORY BOARD

Volker Jung, Dr.

61, Chairman; Member of the Managing Board, Siemens AG; Chairman of the Supervisory Board, Infineon Technologies AG; Member of the Supervisory Boards of MAN AG, Direkt Anlage Bank AG and Messe München GmbH.

Dietrich Botsch, Dr.*

62, former President of the Private Communication Systems Group, Siemens AG. (Until December 15, 1999).

Jürgen Heraeus, Dr.

64, Chairman of the Supervisory Boards of Heraeus Holding GmbH and TEUTONIA Zementwerk AG; Member of the Supervisory Boards of Buderus AG, Heidelberger Druckmaschinen AG, IKB Deutsche Industriebank AG and Messer Industrie GmbH. (Since December 15, 1999).

Anton Kathrein, Prof. Dr.

49, Second Deputy Chairman; Managing Director and General Partner, KATHREIN-Werke KG; Chairman of the Supervisory Board, Erste Rosenheimer Privatbank AG; Chairman of the Supervisory Board, Grundig AG; Member of the Supervisory Board, Isar-Amperwerke AG. (Since December 15, 1999).

Haruo Kawabata*

56, Senior Managing Director, Member of the Board of Matsushita Electronic Components Co., Ltd., Japan. (Until December 15, 1999).

Seinosuke Kuraku

63, Advisor to Matsushita Electric Industrial Co., Ltd., Japan. (Since December 15, 1999).

Karl-Heinz Midunsky*

56, Head of Corporate Companies, Insurance, Mergers and Acquisitions Department, Siemens AG; Chairman of the Supervisory Board, RISICOM Rückversicherung Aktiengesellschaft; Member of the Supervisory Boards of OSRAM GmbH, BSH Bosch und Siemens Hausgeräte GmbH and Gerling Speziale Kreditversicherungs-AG. (Until December 15, 1999).

Katsuro Sakakibara*

63, Managing Director; Member of the Board of Matsushita Electric Industrial Co., Ltd., Japan. (Until December 15, 1999).

Albrecht Schäfer, Dr.

52, General Counsel, Siemens AG; Member of the Supervisory Boards of Infineon Technologies AG, RISICOM Rückversicherung Aktiengesellschaft, Siemens Financial Services GmbH and Siemens Nixdorf Informationssysteme Aktiengesellschaft. (Since December 15, 1999).

Werner Strohmayr

56, Member of the Board of Management, Bayerische Landesbank Girozentrale; Chairman of the Supervisory Boards of Bürgerliches Brauhaus Ingolstadt AG, HUK-COBURG Leben AG and HUK-COBURG Krankenversicherung AG; Vice Chairman, HUK-COBURG Allgemeine Versicherung AG; Member of the Supervisory Boards of Deutsche Kreditbank AG, Bayerische Wohnungs-Aktiengesellschaft and Software Design & Management AG. (Since December 15, 1999).

Kazumasa Yoshida*

64, President and Member of the Board of Matsushita Electronic Components Co., Ltd., Japan. (Until December 15, 1999).

Peter Hoffmann

38, First Deputy Chairman; Member of the Works Council of the Heidenheim plant of EPCOS AG.

Konrad Hollerieth

55, Corporate Director, Sales Europe II, EPCOS AG. (Since March 28, 2000).

Hans Lux

53, Chairman of the Works Council of the Munich plants of EPCOS AG. (Since March 28, 2000).

Walter Nicolaus*

43, Shipping Manager at the Heidenheim plant of EPCOS AG. (Until March 28, 2000).

Francis Oppenauer

52, General Counsel, IG Metall Verwaltungsstelle, Munich; Member of the Representatives' Assembly, BG Feinmechanik und Elektrotechnik; Member of the Management Committee, Labor Office, Munich.

Werner Pietsch

60, Corporate Director, Overseas Sales, EPCOS AG.

Nikolaus Schmidt*

49, Chairman of the Group Works Council of EPCOS AG; Chairman of the Works Council of the Heidenheim plant of EPCOS AG. (Until March 28, 2000).

Andreas Strobel

47, Assistant Authorized Representative, IG Metall, Heidenheim; Member of the Supervisory Board of Voith Paper Verwaltungs-GmbH.

* Personal data refers to the time of leaving the Supervisory Board.

In fiscal 2000, Supervisory Board expenses totaled €315 000 (1999: €78 000).

MEMBERS OF THE MANAGEMENT BOARD

Klaus Ziegler

66, President and Chief Executive Officer; Chairman of the Advisory Board, Siemens Solar GmbH; Chairman of the Board of Directors, EPCOS, Inc., Iselin, New Jersey, USA; Member of the Board of Directors, Siemens S.A., Madrid, Spain.

Gerhard Pegam

38, Chief Operating Officer; Member of the Board of Directors, EPCOS S.A., Málaga, Spain; Chairman of the Board of Directors, EPCOS PTE LTD., Singapore.

Bodo Lüttge, Dr.

60, Chief Financial Officer; Member of the Shareholders' Committee of EPCOS OHG, Deutschlandsberg, Austria.

Kunihisa Tachiiri

55, Operating Officer responsible for Asian markets and business with Japanese customers and suppliers.

Total compensation paid to the Management Board amounted to €4.732 million in fiscal 2000. This was composed of fixed components totaling €1.013 million, variable components totaling €2.635 million and the fair value of stock options granted totaling €1.084 million.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF THE FINANCIAL STATEMENTS OF EPCOS AG, MUNICH, FOR THE YEAR ENDED SEPTEMBER 30, 2000

(ALL FIGURES IN € THOUSAND UNLESS OTHERWISE STATED)

General

EPCOS AG, Munich, ("EPCOS") has been a publicly traded company since October 15, 1999. Its shares, of which the former joint venture partners Siemens AG and Matsushita Electronic Components (Europe) GmbH each hold 12.5% plus one share, are listed on all German stock exchanges and on the New York Stock Exchange. In connection with the initial public offering on October 15, 1999, EPCOS increased its share capital by €3.3 million by issuing 3 300 000 new shares. The subscription price for the new shares was €31.00 per share. The portion of the proceeds of the IPO exceeding the amount of capital increase was recorded as an increase in additional paid-in capital.

EPCOS' business is to develop, manufacture and market passive electronic components. These are integral and indispensable parts of most electrical and electronic products. EPCOS focuses on the fastest-growing and technologically most sophisticated markets.

Business development

Fiscal 2000 was another successful year for EPCOS as technology markets enjoyed a worldwide upswing. The trend in new orders was very positive. After unusually high growth rates in the months from October 1999 to May 2000, primarily due to overheating in the mobile communications segment, order intake began to calm down from June 2000. The volume of orders nevertheless reached a high, above-average level on a broad front. As international business boomed, German domestic business developed well and surpassed expectations. All regions contributed to our outstanding performance in international business. Telecommunications was the predominant industry served. Automotive, industrial and consumer electronics likewise continue to present very good business opportunities. As a result of high order levels and continuous expansion of production capacity, consolidated sales revenues for fiscal 2000 rose 63% over the previous year's figure.

In the Capacitors segment, demand for tantalum electrolytic capacitors is increasing at an above-average rate. Here the greatest incentives to growth are provided by mobile communications and network applications. Production capacity at the plant in Évora, Portugal, was expanded significantly. EPCOS was thus able to benefit from excess demand for these products.

In the Ceramic Components segment, which is also growing vigorously, sales of microwave ceramic products deserve special mention. As most of these products are manufactured by EPCOS OHG, a wholly owned subsidiary in Deutschlandsberg, Austria, the contribution of this business segment is primarily reflected in the investment earnings reported in the financial statements of EPCOS AG.

In the Surface Acoustic Wave Components segment, the boom in orders primarily results from buoyant demand for mobile radio products. Thanks to its fastest-growing business segment, EPCOS has gained a leading position in the world market.

In the Ferrites segment, order input likewise developed very positively, fueled by strong demand for products for high-speed Internet access and by recovery in industrial electronics. In fiscal 2000, this business segment posted a positive result, although relocation of manufacturing operations imposed a restructuring charge.

Capital expenditure

As in the previous year, expansion of production capacity, above all in surface acoustic wave components and, to a lesser extent, in tantalum capacitors and microwave ceramic components, accounted for the bulk of capital expenditure in fiscal 2000.

Research and development

EPCOS' research and development activities in fiscal 2000 focused on ongoing development of existing products, development of new products, and improvements to production processes. R&D expenses for the EPCOS Group totaled €81.8 million, equivalent to 4.4% of consolidated net sales.

Earnings, assets and financial position

High order volumes, constantly improving margins, and declining interest expenditure thanks to repayment of short-term debt led to significant improvement of results from ordinary business activities. The key balance sheet figures as of September 30 are listed below.

Key balance sheet figures

€ million	EPCOS Group			EPCOS AG		
	2000	Change	1999	2000	Change	1999
Total assets	1 316	41%	932	815	64%	498
Shareholders' equity	625	126%	277	427	86%	230
Equity ratio	47%		30%	52%		46%
Fixed assets	703	46%	483	373	17%	318
Ratio of fixed to total assets	53%		52%	46%		64%

Whereas in fiscal 1999 the balance of cash flows from operating activities, capital expenditure for fixed assets and investments was still clearly in deficit at minus €80 million, the EPCOS Group managed to post a positive free cash flow of €137 million in fiscal 2000. This results from the increase in net cash provided by operating activities, which clearly outweighs the increase in net cash used in investing activities. After repayment of short-term debt, liquidity rose from €70 million to €92 million.

Human resources

At the end of fiscal 2000, the EPCOS Group employed 13 237 people worldwide, 21% more than in the previous year. EPCOS AG had a payroll of 3662 compared with 3284 in the previous year.

Risks

EPCOS is exposed to cyclic variations in the industries in which its customers operate. Slower growth in the key mobile telecommunications market could impair sales revenues and earnings. Activities to set up or expand production capacity in Asia and other regions may lead to tougher price competition and additional exchange rate risks. As EPCOS primarily operates in markets subject to rapid technological change, there is also the danger that the Company might not react quickly enough to new market trends, thus losing market share. Using a comprehensive risk management system, EPCOS constantly monitors these risks and takes any corrective action required.

Outlook

Full order books, a favorable global economic climate and continuing recovery in Europe point to a sustained improvement in business development. The trend toward stable prices in passive electronic components appears to be holding up. Growth at EPCOS is being driven by developments in mobile communications, by Internet technology, by new digital audio/video media and equipment, by the rising electronics content of automobiles and by recovery in industrial electronics, especially in Europe. Against this background, EPCOS is well equipped to achieve the goals set for the new fiscal year.

Statement on relations with dependent companies pursuant to § 312 German Stock Corporation Act

For all transactions conducted and measures adopted as listed in the report on relations with dependent companies, the Company received consideration which was appropriate under the circumstances of which we were aware when the transactions were conducted or measures were adopted or waived, and has not been placed at any disadvantage by the fact that such measures were adopted or waived. The report covers the period from October 1, 1999, up to the IPO on October 15, 1999.

SUPPLEMENTARY INFORMATION ON THE NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS PURSUANT TO § 292a HGB

As permitted under § 292a of the German Commercial Code (Handelsgesetzbuch, HGB), EPCOS AG prepares its consolidated financial statements in accordance with United States Generally Accepted Accounting Principles (US-GAAP). The company is thus released from the obligation to prepare consolidated financial statements in accordance with § 290 et seq. HGB.
The relief available under § 292a HGB may be applied if accounting, valuation and consolidation methods varying from those applicable under German law are disclosed.

Information required under § 292a (2) No. 4b HGB
Whereas German law emphasizes the principles of prudence and protection of creditors, US-GAAP attaches greater importance to the provision of information to present and prospective investors. This divergent viewpoint results in a series of presentation and valuation differences between the regulations applied under German commercial law to the financial statements of EPCOS AG and the US-GAAP regulations applying to the consolidated financial statements. These will now be explained in greater detail as prescribed by § 292a (2) No. 4b HGB.

Classification regulations
Classification of the balance sheet under US-GAAP is based on the liquidity of the items concerned, the most liquid items being presented first. Assets and liabilities are generally broken down into current and long-term items. The classification matrix prescribed by § 266 HGB, on the other hand, requires limited companies to break down their assets into fixed and current assets. The liabilities side of the balance sheet is primarily broken down into shareholders' equity and non-equity funds.

Self-produced intangible assets
US-GAAP offers the option to capitalize certain self-produced intangible assets, such as computer software. German commercial law prohibits the capitalization of self-produced intangible assets.

Capitalization of interest on borrowings for assets under construction
Interest incurred during the construction of property, plant and equipment must be capitalized for the purposes of US-GAAP. Its recognition is generally prohibited by German commercial law. However, exceptions exist where credits are used to finance new assets with a longer construction period.

Composition of cost of production
Cost of production is defined by US-GAAP as the full costs relating to production. In addition to direct material and labor costs and special direct production costs, indirect material and production costs must be included in the cost of production. Administrative expenses are also to be included if they are directly related to the creation of the products to be valued. Inclusion of indirect material and production costs and administrative expenses is optional under German commercial law. This generally results in differing overhead mark-up rates for HGB and US-GAAP.

Financing leasing agreements
Leasing objects are capitalized in certain circumstances under US-GAAP. The capitalized leasing objects are depreciated over the normal useful life of the leasing object for the business or the leasing period, whichever is shorter.
Payment obligations relating to future leasing payments are recorded as liabilities at their present value. In accordance with HGB principles, leasing objects may also be capitalized under certain circumstances. However, the criteria applying are different to those under US-GAAP.

Deferred taxes
In accordance with German accounting principles, deferred tax claims resulting from loss carry-forwards may not be reported in the balance sheet, because expected tax savings may not be capitalized before they have been realized. Under US-GAAP, such tax repay-

ment claims are generally reported and have to be investigated with regard to the probability or improbability of the respective tax losses being used. The result of this analysis can result in a correction to the carrying value of the deferred tax claim. Capitalization of deferred tax assets in financial statements is optional under German commercial law, but mandatory under US-GAAP.

Allowance for doubtful accounts
Allowance for doubtful accounts in accordance with US-GAAP and HGB varies primarily in that US-GAAP only permits general allowances to be made on the basis of past experience.

Purchase of common shares for transfer to employees
In accordance with US-GAAP, common shares (treasury stock) must be openly deducted from shareholders' equity. Under German commercial law, such shares must be capitalized and reported separately under current assets. A reserve for such shares has to be set up in the same amount in shareholders' equity. Under a share purchase plan, EPCOS employees can purchase a certain number of shares at a preferential price. The difference between the preferential price and the purchase price incurred by the company results under German commercial law in personnel expenses. Under US-GAAP, the amount recorded as personnel expenses is based on the benefit derived by employees.

Special reserve with an equity portion
US-GAAP does not provide for a special reserve with an equity portion, because such a reserve results from measures adopted purely for tax purposes. A special reserve has to be set up under German commercial law in accordance with the principle that such a reserve must be reported in the statutory balance sheet in order to be recognized for tax purposes.

Pension accruals and accruals for service anniversary awards
Accruals are calculated for US-GAAP purposes on the basis of the Projected Unit Credit Method. The yardstick for measuring the benefit-oriented pension obligations is the Projected Benefit Obligation. The PBO is the present value of the pension rights earned as of the valuation date. The method takes into account current interest rates derived from the long-term capital market, future probable rates of salary increases and probable pension increases. In contrast, the calculation in accordance with German commercial law is carried out on the basis of the present value method. Among other things, probable future salary and pension increases are not taken into account. For tax purposes, pension accruals are reported at their so-called partial value. The rules under German commercial law and US-GAAP for pension accruals similarly apply to accruals for service anniversary awards.

Other accrued liabilities
US-GAAP only requires the creation of accrued liabilities in the event of an obligation to third parties. In contrast with German commercial law, so-called accruals for future expenses are prohibited.

Accounting for derivatives
Under German commercial law, derivative financial instruments, as uncompleted transactions, are only recognized in the balance sheet if their valuation as of the balance sheet date indicates the threat of a loss. Under US-GAAP, these derivatives are generally recorded as of the balance sheet date at their fair value, unless they are associated with a specific hedging transaction.

Capital consolidation
Under US-GAAP, capital consolidation is carried out in practice by means of a revaluation in proportion to the participating interest held. Assets and liabilities have to be shown at their current market value as of the acquisition date in the amount attributable to participating interest held by the purchaser. The interests in the capital owned by minority shareholders are reported under the non-equity funds. German commercial law provides the option to apply either the book value method or the revaluation method. Under the book value method, the capital is consolidated at the book values. Hidden reserves may only be disclosed in the amount of the difference between the book value of the participating interest and the equity capital that has been set off against this. Under the revaluation method, hidden reserves are disclosed from the outset, as in US-GAAP practice. They are, however, disclosed in full, irrespective of the percentage of the participating interest held.

INDEPENDENT AUDITORS' REPORT

To the Supervisory Board and Shareholders of EPCOS AG

We have audited the accompanying consolidated balance sheets of EPCOS AG and subsidiaries as of September 30, 2000 and 1999, and the related consolidated statements of income, shareholders' equity and comprehensive income (loss), and cash flows for fiscal 1998, 1999 and 2000. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Germany and the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of EPCOS AG and subsidiaries as of September 30, 2000 and 1999, and the results of their operations and their cash flows for fiscal 1998, 1999 and 2000, in conformity with United States Generally Accepted Accounting Principles.

Munich, Germany, November 20, 2000

KPMG Deutsche Treuhand-Gesellschaft
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Berger Höfer
Independent auditors

Consolidated Statements of Income

For the years ended September 30, 2000, 1999 and 1998 (€ thousand, except share data)

	Note	2000	1999	1998
Net sales				
Third parties		**880 124**	385 237	334 861
Related parties	8	**975 271**	755 519	672 371
Total net sales		**1 855 395**	1 140 756	1 007 232
Cost of goods sold	8	**1 320 712**	883 337	774 708
Gross profit		**534 683**	257 419	232 524
Research and development	8	**81 765**	56 334	42 058
Marketing and selling expenses	8	**102 330**	73 025	69 392
General and administrative expenses	8	**20 650**	12 609	11 427
		204 745	141 968	122 877
Operating income		**329 938**	115 451	109 647
Interest income	8	**3 075**	7 308	5 037
Interest expense	8	**(9 163)**	(19 418)	(6 184)
Foreign exchange gains (losses), net	2(n)	**4 951**	(5 831)	(2 919)
Other income (expense), net		**808**	6 134	2 692
Share of net gains (losses) of unconsolidated affiliates		**598**	(229)	(813)
Income before income taxes and minority interest		**330 207**	103 415	107 460
Provision for income taxes	11	**(90 095)**	(27 795)	(46 608)
Minority interest		**(148)**	186	509
Net income		**239 964**	75 806	61 361
Basic and diluted earnings per share	12	**3.68**		

Consolidated Balance Sheets

As of September 30, 2000 and 1999 (€ thousand, except share data)

	Note	2000	1999
ASSETS			
Current assets			
Cash and cash equivalents		92 076	22 460
Accounts receivable, net	3, 8	235 421	162 975
Inventories, net	4	219 291	163 503
Financial receivables from Siemens	8	-	55 347
Prepaid expenses and other current assets		57 746	39 342
Deferred income taxes	11	9 033	5 004
Total current assets		613 567	448 631
Property, plant and equipment, net	5	657 409	438 357
Intangible assets, net	5, 18	19 623	15 484
Deferred income taxes	11	5 969	12 267
Other assets		19 843	16 977
Total assets		1 316 411	931 716
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Accounts payable	8	205 041	96 336
Accrued expenses and other current liabilities	6	232 558	116 553
Financial liabilities to Siemens	8	36	161 404
Short-term borrowings	7	43 529	63 423
Current portion of long-term debt	7	11 790	14 307
Deferred income taxes	11	4 971	1 690
Total current liabilities		497 925	453 713
Long-term debt, excluding current installments	7	58 279	87 201
Pension liabilities	13	93 691	86 524
Deferred income taxes	11	3 545	3 166
Other liabilities		37 809	23 543
Minority interest		305	974
Total liabilities		691 554	655 121
Commitments and contingencies	16		
Shareholders' equity	9		
Share capital – 75 020 000 shares authorized, 65 300 000 issued and 65 285 000 outstanding for 2000; 75 020 000 authorized, 62 000 000 issued and outstanding for 1999		65 300	62 000
Additional paid-in capital		255 666	161 828
Retained earnings		305 674	65 710
Accumulated other comprehensive income (loss)		(403)	(12 943)
Treasury shares at cost (15 000 shares for 2000, nil for 1999)	10	(1 380)	-
Total shareholders' equity		624 857	276 595
Total liabilities and shareholders' equity		1 316 411	931 716

Consolidated Statements of Shareholders' Equity and Comprehensive Income (Loss)

For the years ended September 30, 2000, 1999 and 1998 (€ thousand)

	Share capital	Additional paid-in capital	Retained earnings	Equity	Accumulated other comprehensive income (loss)	Treasury shares	Total shareholders' equity
Balances as of October 1, 1997	-	-	-	268 847	256	-	269 103
Comprehensive income:							
Net income	-	-	-	61 361	-	-	61 361
Currency translation adjustment	-	-	-		(7 934)	-	(7 934)
Total comprehensive income							53 427
Deemed capital contributions from shareholders	-	-	-	37 643	-	-	37 643
Capital distributions to shareholders	-	-	-	(11 875)	-	-	(11 875)
Cash dividends	-	-	-	(61 066)	-	-	(61 066)
Balances as of September 30, 1998	-	-	-	294 910	(7 678)	-	287 232
Comprehensive income:							
Net income	-	-	29 169	46 637	-	-	75 806
Currency translation adjustment	-	-	-	-	(5 265)	-	(5 265)
Total comprehensive income							70 541
Deemed capital contributions from shareholders	-	-	-	14 728	-	-	14 728
Capital contributions from shareholders	-	4 866	-	10 157	-	-	15 023
Capital distributions to shareholders	-	(1 770)	-	(6 290)	-	-	(8 060)
Cash dividends	-	-	-	(102 869)	-	-	(102 869)
Reorganization on July 1, 1999	62 000	158 732	36 541	(257 273)	-	-	-
Balances as of September 30, 1999	62 000	161 828	65 710	-	(12 943)	-	276 595
Comprehensive income:							
Net income	-	-	239 964	-	-	-	239 964
Currency translation adjustment	-	-	-		12 540	-	12 540
Total comprehensive income							252 504
Issue of share capital	3 300	94 523	-	-	-	-	97 823
Capital contributions from minority shareholders	-	284	-	-	-	-	284
Purchase of treasury stock	-	-	-	-	-	(4 136)	(4 136)
Sale of treasury stock	-	(969)	-	-	-	2 756	1 787
Balances as of September 30, 2000	65 300	255 666	305 674	-	(403)	(1 380)	624 857

See Notes to Consolidated Financial Statements

Consolidated Statements of Cash Flows

For the years ended September 30, 2000, 1999 and 1998 (€ thousand)

	2000	1999	1998
Cash flows from operating activities			
Net income	239 964	75 806	61 361
Adjustment to reconcile net income to net cash provided by operating activities			
Depreciation and amortization	139 589	102 522	78 798
Provision for doubtful accounts	4 392	1 899	2 061
Loss (gain) on sale of property, plant and equipment	222	(420)	(1 375)
Share of net losses (gains) of unconsolidated affiliates	(598)	229	813
Minority interest	148	(186)	(509)
Deferred income taxes	6 716	746	(241)
Stock-based compensation	504	-	-
Changes in assets and liabilities, excluding effects of acquisitions			
Increase in accounts receivable	(66 973)	(52 559)	(17 145)
Increase in inventories	(48 725)	(27 859)	(7 403)
Increase in prepaid expenses and other current assets	(17 491)	(4 644)	(6 672)
Increase in accounts payable	100 063	6 929	20 034
Increase (decrease) in accrued expenses and other current liabilities	113 448	4 731	(1 060)
Increase (decrease) in other assets	(703)	(7 074)	(366)
Increase (decrease) in pension liabilities	6 350	(5 743)	8 103
Increase in other liabilities	13 596	7 711	2 007
Net cash provided by operating activities	490 501	102 088	138 406
Cash flows from investing activities			
Proceeds from sale of equipment	2 723	2 718	3 237
Decrease (increase) in investment securities	-	-	23 391
Net decrease (increase) in financial receivables from Siemens	55 462	14 104	(24 853)
Net increase in financial receivables from third parties	(50)	-	-
Acquisitions of businesses, net of cash acquired	(2 700)	(3 699)	(6 854)
Capital expenditures	(351 007)	(180 457)	(185 192)
Investments in and advances to unconsolidated affiliates	(518)	(312)	(1 650)
Net cash used in investing activities	(296 090)	(167 646)	(191 921)
Cash flows from financing activities			
Net increase (decrease) in financial liabilities to Siemens	(162 385)	93 414	48 647
Increase (decrease) in short-term borrowings	(24 894)	43 464	6 115
Extinguishment of long-term debt	(34 771)	-	-
Proceeds from issuance of long-term debt	15 661	37 285	28 664
Principal payments on long-term debt	(14 307)	(8 131)	(4 965)
Principal payments under capital leasing obligations	(109)	-	-
Purchase of treasury stock	(4 136)	-	-
Capital contributions and deemed capital contributions from shareholders	-	29 751	37 643
Cash dividends	-	(102 869)	(61 065)
Capital decrease and capital distributions to shareholders	-	(8 060)	(11 875)
Capital contributions from minority shareholders	284	-	-
Issue of share capital	97 823	-	-
Sale of treasury stock	1 283	-	-
Net cash provided by (used in) financing activities	(125 550)	84 854	43 164
Effect of exchange rate changes on cash	755	61	1 646
Net increase (decrease)in cash and cash equivalents	69 616	19 357	(8 705)
Cash and cash equivalents at beginning of year	22 460	3 103	11 808
Cash and cash equivalents at end of year	92 076	22 460	3 103

See Notes to Consolidated Financial Statements

EPCOS AG – NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED SEPTEMBER 30, 2000, 1999 AND 1998

(€ THOUSAND, EXCEPT SHARE DATA OR AS OTHERWISE STATED)

1. Description of the Company and Basis of Presentation

(a) Description of the Company

EPCOS AG (the "Company") is a leading producer and supplier of passive electronic components headquartered in Munich, Germany. The Company has research and design centers and manufacturing facilities in Europe, Asia and the Americas, and a worldwide sales network. Passive electronic components are used in electronic circuitry of all descriptions. The Company structures its product offerings to meet the needs of its principal customer groups, such as the automotive, consumer and industrial electronics industries and the telecommunications industry. Customers consist of equipment manufacturers and other companies that make modules or subsystems for equipment manufacturers.

The core of the Company was Siemens Matsushita Components, a former fifty-fifty joint venture (the "Joint Venture") formed in 1989 by Siemens AG ("Siemens") on the one part, and Matsushita Electric Industrial Co., Ltd. and Matsushita Electronic Components Co., Ltd. ("Matsushita") on the other. Siemens Matsushita Components comprised a limited partnership named Siemens Matsushita Components GmbH & Co. KG (the "Limited Partnership") and Siemens Matsushita Components Verwaltungsgesellschaft mbH ("S+M GmbH"), the general partner of this limited partnership, as well as all of their subsidiaries. In reorganizing the Company on July 1, 1999, in preparation for an initial public offering, Siemens and Matsushita contributed their interests in the Limited Partnership to S+M GmbH, and Siemens contributed several Siemens-owned subsidiaries and certain assets for an additional 4.5% interest in S+M GmbH and €1770 in cash. In addition, Siemens contributed certain assets in exchange for €6290 in cash as part of the reorganization on June 30, 1999. S+M GmbH converted to a German stock corporation (Aktiengesellschaft, AG) and changed its company name to EPCOS AG on September 2, 1999. Following the contributions of the additional Siemens-owned subsidiaries and certain assets, Siemens and Matsushita held approximately 54.5% and 45.5% respectively of the Company's 62 million common shares.

In preparation for an initial public offering, the Company increased its share capital by issuing 3.3 million ordinary shares with no par value and a computed share of capital stock of €1 per share. In the initial public offering in October 1999, the Company offered 3.3 million shares, and the former shareholders Siemens and Matsushita offered 39.3 million shares plus an overallotment reserve of 6.4 million shares to the public at a subscription price between €28 and €34 per ordinary share, the shares being sold at €31 each. EPCOS received proceeds of €97 823 net of offering costs of €3429. The portion of the proceeds exceeding the amount of capital increase amounted to €94 523 and was recorded as an increase in additional paid-in capital.

Since the initial public offering, Siemens and Matsushita have each held 12.5% plus one share of the Company's outstanding share capital.

(b) Basis of Presentation

The aforementioned contribution of the Limited Partnership and the transfer by Siemens of certain subsidiaries and assets to S+M GmbH were made under the terms and conditions of a contribution agreement between Siemens and Matsushita effective July 1, 1999. The contribution of the Limited Partnership represented a transfer between entities under common control and did not result in any change in ownership as all shares were exchanged between shareholders in direct proportion to their existing ownership. The transfer of certain subsidiaries and assets by Siemens represented the transfer of assets to a joint venture by a joint venture partner. Accordingly, all such transactions have been accounted for at historical book value. The financial statements consolidate the historical consolidated financial statements of S+M GmbH, together with the historical financial statements of the Limited Partnership, and the Siemens-owned subsidiaries and assets contributed by Siemens, because all these operations were under the "common management" of Siemens from 1989.

In fiscal 1999 and 1998, Siemens and its affiliates provided certain services and functions to the consolidated entities, and the Company's operations were financed primarily through its operating cash flows and loans from Siemens and third parties. Although the Company believes that the charges for such services were reasonable, the costs charged to the Company for these services were not necessarily indicative of the costs that would have been incurred if it had been a stand-alone entity. In preparation for the initial public offering, the Company entered into a series of new service agreements with Siemens to replace previous agreements. On October 1, 1999, the Company replaced its loans from Siemens with financing from financial institutions. See Note 8 for further details on transactions with related parties and Note 7 for additional information on refinancing.

For the Limited Partnership in fiscal 1999 and 1998, income taxes were calculated as if the Company had filed separate income tax returns. Income taxes incurred by the limited partners on behalf of the Limited Partnership have been included as deemed capital contributions in the period in which the cost was incurred. Following restructuring of the Company on July 1, 1999, the entire Company is a separate taxable entity and files tax returns on a stand-alone basis. The consolidated financial statements for fiscal 1999 and 1998 may not necessarily reflect what the consolidated results of operations, financial position and cash flows of EPCOS would have been, had EPCOS been a separate, stand-alone entity.

(c) The Euro as Reporting Currency

Effective January 1, 1999, the euro was introduced as the common legal currency of eleven member states of the European Economic and Monetary Union, including Germany. The Company has adopted the euro as its reporting currency for fiscal periods beginning after January 1, 1999, and has restated prior year consolidated financial statements which were in German marks in euros at the official exchange rate of 1.95583 German marks to the euro fixed on January 1, 1999. Prior to the introduction of the euro, the currencies of other countries fluctuated against the German mark, but because the euro did not exist prior to January 1, 1999, historical exchange rates for the euro are not available. Accordingly, while the consolidated financial statements restated in euros depict the same trends as would have been shown had they been presented in German marks, they will not, however, be comparable with the euro financial statements of other companies that had historically used a reporting currency other than the German mark.

2. Summary of Significant Accounting Policies

(a) Principles of Consolidation

All companies over which the Company, as reorganized on July 1, 1999, has legal and effective control are consolidated. All significant inter-company balances and transactions have been eliminated in the consolidated financial statements.

(b) Cash Equivalents

For purposes of the consolidated statements of cash flows, the Company considers all highly liquid debt instruments with original maturities of three months or less to be cash equivalents.

(c) Investment Securities

Investment securities consist of investments in mutual funds and are stated at market value as determined by the most recently traded price of each security at the balance sheet date. All investment securities are defined as trading securities under the provisions of Statement of Financial Accounting Standards ("SFAS") No. 115, Accounting for Certain Investments in Debt and Equity Securities.

(d) Inventories

Inventories are stated at the cost of acquisition or production or at the market price, whichever is lower, the cost of production being principally determined by the weighted average method. The cost of production comprises direct material and labor costs plus applicable manufacturing overheads, including depreciation charges.

(e) Investments in Unconsolidated Affiliates

Businesses in which the Company does not have control but has the ability to exercise significant influence over operating and financial policies are recorded in the consolidated financial statements using the equity method of accounting.

(f) Property, Plant and Equipment

Property, plant and equipment are stated at cost, less accumulated depreciation. Cost includes major expenditures for improvements and replacements that extend useful lives or increase capacity and also includes interest costs associated with construction in progress. Maintenance and repairs are charged directly to expense as incurred. Depreciation is computed on the straight-line or declining balance methods over the estimated useful lives of the assets. In general, the estimated useful lives of depreciable assets are assigned as follows:

Buildings	20 to 50 years
Machinery and other equipment	5 to 10 years

(g) Equipment under Capital Leasing

The Company leases some of its office equipment under capital leasing agreements. The assets and liabilities under capital leasing are recorded at the present value of aggregate future minimum leasing payments or at the fair value of the assets leased, whichever is lower. Assets under capital leasing are amortized over the leasing term or useful life of the asset, whichever is shorter.

(h) Intangible Assets

Intangible assets primarily represent goodwill, which is the excess of purchase price over fair value of net assets of companies acquired. Goodwill is amortized on a straight-line basis over the expected periods to be benefited, generally 15 years. Intangible assets other than goodwill are carried at acquisition cost net of accumulated amortization, calculated under the straight-line method over the respective useful life of the asset.

(i) Impairment of Long-lived Assets

The Company reviews long-lived assets, including intangible assets, for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset with future net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Estimated fair value is generally either based on appraised value or measured by discounted estimated future cash flows. Considerable management judgment is necessary to estimate discounted future cash flows. Accordingly, actual results could vary significantly from such estimates.

(j) Revenue Recognition

Revenue from sales is recognized when products are shipped and title passes, net of discounts, customer bonuses and rebates granted.

(k) Product-related Costs

Research and development costs and marketing and selling expenses are expensed as incurred. Provisions for estimated warranty costs are recorded at the time the related sales are recognized and periodically adjusted to reflect actual experience.

(l) Income Taxes

Income taxes are calculated using the asset and liability method in accordance with the provisions of SFAS No. 109, Accounting for Income Taxes. All liabilities or claims relating to taxes on earnings, capital and property arising during the fiscal year are reflected in the consolidated financial statements pursuant to the relevant tax laws applicable to the individual companies. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are computed using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

(m) Financial Instruments and Risk Management

Derivative financial instruments are utilized by the Company to reduce foreign exchange and interest rate risks. The Company does not hold or issue derivative financial instruments for trading purposes. The Company enters into forward foreign exchange contracts to reduce its exposure to certain risks inherent within its business, based on forecast foreign currency transaction exposures. The notional amounts of these forward contracts are not recorded in the consolidated financial statements. Gains or losses on forward contracts are booked to currency gains and losses and included in determining net income. The discount or premium on a forward contract is included in determining net income over the life of the forward contract. The Company purchases foreign exchange option contracts to limit potential losses from adverse exchange rate movements on foreign currency transactions. Premiums to purchase foreign exchange option contracts are included in determining net income over the life of the contract. As part of a zerocost strategy, the Company also sells foreign exchange option contracts with equal contract volumes and shorter terms. Premiums received under these contracts are included in determining net income over the life of the contract. In fiscal 1999, The Company utilized cross-currency swap agreements in order to fix the interest rate paid on existing variable rate debt instruments, including debt instruments denominated in a foreign currency. The cross-currency swap agreements were designated as hedges, and effectiveness was determined by matching the principal balances and terms with that specific obligation. The agreements involved the exchange of amounts based on a fixed interest rate against amounts based on variable interest rates over the life of the agreement, without an exchange of the notional amount on which the payments were based. The differential to be paid or received as interest rates change was accrued and recognized as an adjustment of interest expense related to the debt (the accrual method). Simultaneously, the Company entered into foreign exchange contracts to exchange the currency of the underlying debt. The related amount payable to or receivable from counterparties was included in accrued expenses and other liabilities or prepaid expenses and other current assets. The fair values of the swap agreements were not recognized in the consolidated financial statements.

(n) Foreign Currencies

The balance sheets of the Company's foreign subsidiaries are translated at the exchange rates in effect at the balance sheet date while the statements of operations are translated at the average rates of exchange during the year. The resulting translation adjustments of the Company's foreign subsidiaries are shown as a separate component of stockholders' equity. Gains and losses arising from exchange rate fluctuations on transactions denominated in a currency other than the functional currency are recognized in current net income. Foreign exchange gains amounted to €63 373, €31 993 and €791, and foreign exchange losses were €58 422, €37 824 and €3711 for the years ended September 30, 2000, 1999 and 1998 respectively.

(o) Use of Estimates

The Company's Management has made a number of estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities to prepare these consolidated financial statements in conformity with US GAAP. Actual results could differ from those estimates.

(p) Earnings per Share

Due to the combination of S+M GmbH, the Limited Partnership and the Siemens-owned subsidiaries and operations, the disclosure of historical earnings per share data for fiscal 1999 and 1998 would be inappropriate and therefore is not reported. For fiscal 2000, basic earnings per share are computed by dividing net income by the weighted average number of common shares outstanding for the year. Diluted earnings per share reflect the potential dilution that would occur if the potentially dilutive common shares, such as options, had been issued. The treasury stock method is used to calculate dilutive shares. This method reduces the gross number of dilutive shares by the number of shares purchasable from the proceeds of the option assumed to be exercised. For computations of basic and diluted earnings per share, see Note 12.

(q) Stock-based Compensation

Stock-based compensation expenses are accounted for in accordance with Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees ("APB 25"), and its related interpretations. Accordingly, compensation expense for stock option and share purchase plans for employees is measured as the excess of the quoted market price of the Company's common stock at the grant date over the amount the employee must pay. For further details of stock-based compensation, see Note 10.

3. Accounts Receivable, Net

Accounts receivable are presented net of an allowance for doubtful accounts. The following table presents changes to the allowance for doubtful accounts for the years ended September 30, 2000, 1999 and 1998.

Allowance for Doubtful Accounts

	2000	1999	1998
Allowance for doubtful accounts, beginning of year	4 384	4 031	2 966
Additions charged to bad debt expense	4 392	1 899	2 061
Write-offs charged against the allowance	(1 458)	(1 377)	(473)
Recoveries of amounts previously written-off	8	3	-
Foreign exchange translation adjustment	469	(172)	(523)
Allowance for doubtful accounts, end of year	7 795	4 384	4 031

4. Inventories, Net

Net Inventories

As of September 30

	2000	1999
Raw materials and supplies	44 039	34 910
Work in process	92 140	65 063
Finished products	83 112	63 530
Total inventories, net	219 291	163 503

Amounts appearing in the preceding table are presented net of valuation allowances of €17 812 and €14 562 as of September 30, 2000 and 1999 respectively. Changes in the inventory valuation allowance for the years ended September 30, 2000, 1999 and 1998, are as follows:

Valuation Allowance for Inventories

	2000	1999	1998
Valuation allowance, beginning of year	14 562	11 990	12 831
Additions charged to cost of goods sold	8 289	6 756	2 067
Write-downs charged against the allowance	(5 505)	(4 054)	(2 692)
Foreign exchange translation adjustment	466	(130)	(216)
Valuation allowance, end of year	17 812	14 562	11 990

5. Fixed Assets, net

Information with respect to changes to the Company's intangible assets, property, plant and equipment and long-term financial assets is presented in the following fixed asset schedule.

Acquisition and Manufacturing Costs

As of September 30

	1999	Additions	Reclassification	Disposals	Currency change	2000
Goodwill	12 203	1 914	-	-	275	**14 392**
Other intangible assets	5 875	7 991	-	-	305	**14 171**
Intangible assets	18 078	9 905	-	-	580	**28 563**
Land	16 309	1 185	-	(33)	393	**17 854**
Buildings	111 373	2 940	6 982	(41)	3 251	**124 505**
Technical equipment, machinery and other equipment	810 225	213 389	49 464	(25 057)	24 024	**1 072 045**
Construction in progress	64 671	125 159	(56 446)	(162)	1 532	**134 754**
Property, plant and equipment	1 002 578	342 673	-	(25 293)	29 200	**1 349 158**
Investments	3 180	579	-	(73)	450	**4 136**
Investment securities	9 150	9 573	-	(9 247)	-	**9 476**
Other financial assets	172	42	-	(76)	-	**138**
Long-term financial assets	12 502	10 194	-	(9 396)	450	**13 750**

Accumulated Depreciation and Amortization

As of September 30

	1999	Additions	Reclassification	Disposals	Currency change	2000
Goodwill	1 288	830	-	-	45	**2 163**
Other intangible assets	1 306	5 400	-	-	71	**6 777**
Intangible assets	2 594	6 230	-	-	116	**8 940**
Land	-	29	-		3	**32**
Buildings	54 595	4 927	-	(41)	1 234	**60 715**
Technical equipment, machinery and other equipment	509 626	128 403	-	(22 307)	15 280	**631 002**
Construction in progress	-	-	-	-	-	**-**
Property, plant and equipment	564 221	133 359	-	(22 348)	16 517	**691 749**
Investments	-	-	-	-	-	**-**
Investment securities	-	-	-	-	-	**-**
Other financial assets	-	-	-	-	-	**-**
Long-term financial assets	-	-	-	-	-	**-**

Book Value

As of September 30

	2000	1999
Goodwill	**12 229**	10 915
Other intangible assets	**7 394**	4 569
Intangible assets	**19 623**	15 484
Land	**17 822**	16 309
Buildings	**63 790**	56 778
Technical equipment, machinery and other equipment	**441 043**	300 599
Construction in progress	**134 754**	64 671
Property plant and equipment	**657 409**	438 357
Investments	**3 180**	4 136
Investment securities	**9 150**	9 476
Other financial assets	**172**	138
Long-term financial assets	**12 502**	13 750

Long-term financial assets shown above are included in the consolidated balance sheets under other assets. The additions to other intangible assets mainly represent acquisitions of licenses for capacitor technology, with estimated useful lives of generally five years. Depreciation expense was €133 359, €100 857 and €78 552, and interest expense capitalized to construction projects amounted to €4212, €2390 and €2208 for the years ended September 30, 2000, 1999 and 1998 respectively. Amortization expense was €6230 in fiscal 2000, €1665 in 1999 and €247 in 1998.

6. Accrued Expenses and Other Current Liabilities

Accrued expenses and other current liabilities at September 30, 2000 and 1999, are as follows:

Accrued Expenses and Other Current Liabilities

As of September 30

	2000	1999
Accrued employee-related costs	**61 396**	39 115
Taxes payable	**70 644**	18 230
Salaries and payroll taxes payable	**41 187**	28 660
Other	**59 331**	30 548
Total accrued expenses and other current liabilities	**232 558**	116 553

7. Short-term Borrowings and Long-term Debt

Refinancing

In October 1999, the Company repaid all short and long-term debt to Siemens. For this purpose, a bank syndicate under the leadership of Commerzbank provided a €250 000 credit facility. This credit facility was unused as of September 30, 2000. In addition, the Company has entered into a number of bilateral borrowing arrangements with DG Bank, HypoVereinsbank, Deutsche Bank, Commerzbank, Bayerische Landesbank, Bank of America, Dresdner Bank and ABN Amro totaling €155 000. These loans carry an interest rate ranging from LIBOR plus 0.25% to 0.5%. Furthermore, there are borrowing arrangements in various countries and currencies totaling €135 000.

Effective October 1, 1999, the Company terminated the cross-currency swap with Siemens. The relating termination fee amounted to €2115, representing the fair value of the cross-currency swap, that converted a short-term US dollar liability into a long-term Singapore dollar loan. The termination fee was included in interest expense for determining net income for fiscal 2000.

Short-term Borrowings

Short-term borrowings as of September 30, 2000 and 1999, were €43 529 and €63 423 respectively. Short-term borrowings as of September 30, 2000 consist principally of unsecured bank loans and export financing. The export financing bears an interest rate ranging between 2.875% and 5.82%. Other short-term borrowings consist of various working capital loans with various banks with a weighted average interest rate of 8.58% in fiscal 2000 and 7.38% in fiscal 1999.

Long-term Debt

Long-term debt consists of the following:

Long-term Debt

As of September 30

	2000	1999
Debentures	6 614	7 099
Long-term debt with third parties	63 455	60 676
Long-term debt with Siemens	-	33 733
Total long-term debt	70 069	101 508
Less current installments	(11 790)	(14 307)
Long-term debt excluding current installments	58 279	87 201

Details of long-term debt as of September 2000 are given in the following table.

The Indian rupee (INR) 250 million debenture of the Company's Indian subsidiary Electronic HiTech Components (EHC) was reduced by a scheduled repayment of INR 62.5 million to INR 187.5 million. There was also a debenture of INR 80 million issued by the Company's Indian subsidiary International Ferrites Ltd. (IFL). Debentures of these Indian subsidiaries total INR 267.5 million (€6.614 million).

A loan of INR 190 million is unsecured and bearing an interest rate ranging between 12.85% and 14%. The remaining INR debt is granted by various local and international banks and secured by the subsidiary's fixed assets.

Long-term debt with third parties at September 30, 2000, includes €49 607 held by the Company's Austrian subsidiary. An amount of €7059 of this debt is secured by investment securities and €1296 by liens on land with a book value of €1376. €1917 are government-guaranteed loan obligations which bear interest at 2% to 3% and are due in installments over a three to five-year period. The weighted average interest rate of the bank debt as of September 30, 2000 and 1999, was 2.96% and 3.75% respectively and is due in installments over five to ten years.

As of September 30, 2000, long-term debt with third parties also includes €6983 in non-interest-bearing loans

Long-term Debt (Loans and Debentures)

As of September 30. Currencies in millions

Principal	Euro equivalent	Interest rate	Maturity	Lender
€49.6	49.6	1.4-5.625%	2001-2007	Austrian banking syndicate and government institutions
INR 272.0 US$ 1.6 €0.3	8.9	11-14% 7.4-9.88% 7.61%	2000-2004	Various regional Indian and international banks
INR 187.5	4.6	14.75%	2003	ANZ Grindleys Bank
€7.0	7.0	Interest-free	2000-2005	Banco Portugal do Atlantico

guaranteed by the government of Portugal. The loans are being repaid in ten semiannual installments beginning November 1, 2000. Under the loan agreement, the Company's Portuguese subsidiary must maintain a minimum equity ratio of 30%. This agreement became effective on September 30, 2000.

The aggregate amounts of long-term debt maturities as of September 30, 2000, are as follows:

Long-term Debt Maturities

As of September 30, 2000

Fiscal year due	
2001	11 790
2002	17 028
2003	16 875
2004	8 905
2005	7 113
Thereafter	8 358

8. Related Party Transactions

The Company has substantial sales directly to Siemens for the latter's internal usage and uses Siemens' regional sales offices and agencies for pass-through sales. Total sales to Siemens for both internal usage and resale were 51.7%, 64.7% and 65.2% of total consolidated net sales for the years ended September 30, 2000, 1999 and 1998 respectively. Resales accounted for 38.0%, 49.9% and 48.2% of total consolidated net sales for the years ended September 30, 2000, 1999 and 1998 respectively, whereas sales directly to Siemens for internal usage accounted for 13.7%, 14.8% and 17.0% of total consolidated net sales respectively. For resale purposes, the Company has entered into numerous agency and distributorship agreements with Siemens in those countries where the Company has no sales force of its own. In other countries, the Company started setting up subsidiaries acting as sales agencies. The Company has an agreement with Matsushita regarding the distribution of certain Matsushita products.

Until September 30, 1999, the Company operated under a cash and debt management agreement and under various other agreements with Siemens Financial Services ("SFS"), a division of Siemens, for the purpose of providing short-term financing or investing excess funds. Advances from or to Siemens under these agreements are reflected as financial liabilities to Siemens or financial receivables from Siemens respectively. Such advances matured within one year at rates tied to LIBOR and were callable by the respective creditor at any time. As of September 30, 1999, the interest rates on financial receivables from Siemens for amounts denominated in euros were 2.875%. As of September 30, 1999, the interest rates on financial liabilities to Siemens for amounts denominated in euros were 3.125%. At the beginning of fiscal 2000, these agreements were terminated and the balance of financial liabilities and receivables was repaid to Siemens.

Apart from financial services, the Company and its subsidiaries make use of various services provided by Siemens and its affiliates. In preparation for the initial public offering, the Company entered into new service agreements with Siemens to replace previous agreements with similar terms and conditions. These agreements with Siemens have fixed terms of one to three years and were agreed for this limited period to allow the Company to establish independent service arrangements. Under these agreements, Siemens provides the Company with a range of personnel and administrative services. Siemens thus administers the Company's pension plans, payroll accounting systems and part of the information management systems. Siemens also provides the Company with library and information services, personnel training and educational programs, as well as purchasing, procurement, sourcing, transportation, logistics and travel management services.

Effective July 1, 1999, the Company entered into an agreement with Siemens which allows the Company to commission Siemens with research and development projects on a case-by-case basis. The agreement grants the Company all patents and rights issuing from such research and development projects. Siemens has the non-exclusive, worldwide and royalty-free right to use these patents and rights for its own business purposes.

Effective April 1, 1999, the Company entered into a lease with Siemens for the Company's headquarters in Munich. The lease expires on September 30, 2009, and can be terminated with 12 months' prior notice from September 30, 2004, at the earliest. The annual rent is fixed at €1398 until September 30, 2002, after which the rent will be indexed. During the entire term of the lease, the Company may increase or decrease the amount of office space rented, the rent being adjusted accordingly. The Surge Arrester Division, Berlin, holds a lease from Siemens for production facilities and office buildings. The contract expires in 2002, and the annual rent is €337.

Effective June 30, 1999, the Company entered into a technical cooperation agreement with Matsushita Electronic Components Co., Ltd. ("MACO"). This agreement governs the exchange of technical know-how on a case-by-case basis, technical consultation and joint developments. All costs and expenses are borne by the party incurring them unless otherwise agreed in writing. The Company pays an annual fee to MACO as compensation for the costs and expenses incurred by the latter. Should the Company and MACO agree on specific technical cooperation on the basis of this agreement, the Company will pay a single license fee, or annual royalties based on the proceeds of sales of the products concerned, or a combination of both.

Effective June 15, 1999, the Company entered into a know-how license agreement with Matsushita-Kotobuki Electronics Industries, Ltd. ("Matsushita-Kotobuki"). This agreement grants the Company a non-exclusive, non-transferable, royalty-bearing and worldwide license to use Matsushita-Kotobuki's know-how and information relating to low-temperature co-fired multilayer ceramic substrates. Matsushita-Kotobuki has agreed to provide the Company with technical advice and guidance relating to the manufacture of products that use this technology. In consideration of the rights and licenses granted to the Company, the Company made an initial payment. The Company also pays ongoing royalties fixed at a percentage of the net sales price of products manufactured using this technology and sold or otherwise disposed of by the Company or its subsidiaries.

Effective June 30, 1999, the Company entered into a patent cross license agreement with Matsushita Electric Industrial Co., Ltd. ("MEI"). Under this agreement, both parties grant each other non-exclusive, non-transferable, worldwide licenses to their respective patents relating to both parties' major product families. The Company has agreed to pay MEI a fixed annual fee until the year 2004. At that time, the Company and MEI will mutually agree to a revised royalty fee amount.

On June 30, 1999, Siemens AG, one of the Joint Venture partners, transferred assets and liabilities of Siemens Microelectronics, Asia Pacific Pte. Ltd. ("SMAP"), Singapore, to the Company for a cash payment of €6290. For the entire period under review, SMAP business has been included in the consolidated financial statements of the Company. The Company is continuing Siemens' historical cost basis for the assets and liabilities transferred, and the cash payment of €6290 was shown as a capital distribution.

The Company has entered into agency and distributorship agreements with 27 worldwide Siemens affiliates. The agreements define minimum price levels, transfer prices and sales margins for the products in their territories. Sales promotion and product advertising by the agents and distributors must comply with the Company's directives.

Transactions with related parties were as follows for the years ended September 30:

Transactions with Related Parties

As of September 30

	2000	1999	1998
Net sales to			
Siemens (including resales to third parties)	**959 246**	738 187	656 496
Matsushita and others	**16 025**	17 332	15 875
	975 271	755 519	672 371
Purchases of inventories and services charged to cost of goods sold			
Siemens	**(107 595)**	(78 596)	(74 539)
Matsushita	**(26 634)**	(14 323)	(8 924)
	(134 229)	(92 919)	(83 463)
Research and development expenses			
Siemens	**(6 492)**	(3 069)	(3 248)
Matsushita	**(4 618)**	(1 813)	(1 077)
	(11 110)	(4 882)	(4 325)
Selling, general and administrative expenses			
Siemens	**(3 294)**	(4 719)	(4 379)
Matsushita	**(554)**	(511)	(1 072)
	(3 848)	(5 230)	(5 451)
Interest income and expense			
Interest income (Siemens)	**-**	2 476	2 440
Interest expense (Siemens)	**(2 177)**	(9 282)	(3 920)

Amounts due from and to related parties included in the consolidated balance sheets at September 30 were as follows:

Amounts Due from and to Related Parties

As of September 30

	2000	1999
Siemens		
Accounts receivable	**88 490**	88 650
Accounts payable	**(12 439)**	(5 618)
Financial receivables	**-**	55 347
Financial liabilities	**(36)**	(161 404)
Long-term debt	**-**	(33 733)
Matsushita		
Accounts receivable	**2 468**	2 162
Accounts payable	**(5 597)**	(2 953)

9. Shareholders' Equity

The Company was formed as a limited liability company ("GmbH") on October 17, 1989. Before reorganization and transformation of the Company into a stock corporation, the share capital of the Company was €31. Until reorganization, the partnership capital of the Limited Partnership was combined with the shareholders' equity of the Company. Income taxes and other items incurred by the limited partners on behalf of the Limited Partnership were included as deemed capital contributions in the historical financial statements of the Limited Partnership, which were combined with those of the Company. Until reorganization, the net investment of Siemens in the subsidiaries and operations transferred to the Company were also combined with the shareholders' equity of the Company.

As of September 30, 1998, the historical equity of the GmbH, the Limited Partnership and the subsidiaries and operations of Siemens transferred to the Company was as follows:

Historical Equity

As of September 30, 1998

S+M GmbH shareholders' equity	35 433
Limited Partnership capital	208 940
Net investment of Siemens in subsidiaries and operations transferred to the Company	50 537
Equity	294 910
Accumulated other comprehensive loss	(7 678)
Total shareholders' equity	287 232

The Company declared and paid cash dividends to its shareholders of nil, €102 869 and €61 066 in the years ended September 30, 2000, 1999 and 1998 respectively. Effective July 1, 1999, Siemens and Matsushita transferred their interests in Siemens Matsushita Components GmbH & Co. KG (“Limited Partnership”) to the Company for issuance of additional shares to each of them in the nominal amount of €28 024. Also effective July 1, 1999, Siemens transferred its interest in ICOTRON Indústria de Componentes Electrônicos Ltda., Gravataí, Brazil (“Icotron”), in Siemens Passive Electronic Devices, Inc., Iselin, New Jersey, USA (“SPD”), and all assets and liabilities of the Surge Voltage Arresters Division, Berlin, Germany, to the Company in return for additional shares issued in the nominal amount of €5920. As a result of these transfers, the Company’s share capital was increased to €62 000 as of July 1, 1999. On May 20, 1999, Siemens agreed to transfer to the Company its 51% share in Siemens Vacuum Electronic Components Co., Ltd., Xiaogan, China (“SVEC”), for a cash payment of €1770. On June 30, 1999, Siemens transferred certain assets and liabilities of SMAP to the Company for a cash payment of €6290. The cash paid to Siemens of €8060 for the transferred business described in Note 1b is shown as a capital distribution.

In preparation for the initial public offering on October 15, 1999, the Company was converted into a stock corporation (Aktiengesellschaft, AG) on September 2, 1999, with an unchanged share capital of €62 000 divided into 62 million ordinary shares of no par value. The resulting notional value is €1 per share. By resolution of the extraordinary shareholders' meeting on October 12, 1999, the share capital of the Company was increased by €3300 through issuance of new capital stock. As a result of this capital increase in connection with the IPO, EPCOS realized net proceeds – after deduction of IPO costs of €3429 – of €97 823. The proceeds exceeded the capital increase by €94 523, which was recorded as an increase in additional paid-in capital. As of September 30, 2000, the Company had a share capital amounting to €65 300 divided into 65.3 million registered shares of no par value with a computed value of €1 per share.

Until July 31, 2004, the Management Board is authorized, with the approval of the Supervisory Board, to increase share capital by a total of up to €13 020 (authorized capital). This authorized capital can be utilized to issue ordinary shares of up to €12 400 for contributions in cash (authorized capital I), to issue ordinary shares of up to €3100 to employees (authorized capital II) and to issue ordinary shares of up to €12 400 for contributions in kind (authorized capital III).

Under the German Stock Corporation Act, the amount of dividends available for distribution to shareholders is based upon the equity of the Company as reported in its financial statements drawn up on a stand-alone basis in accordance with the German Commercial Code (Handelsgesetzbuch). Accordingly, the shareholders’ meeting decides only on the dividends payable from the retained earnings and additional-paid-in capital (after deduction of certain reserves) as shown in the Company’s annual German statutory accounts. This amount differs from the total retained earnings as shown in the accompanying financial statements prepared in accordance with US GAAP. As of September 30, 2000, the distributable amount was €66 082.

The German Stock Corporation Act also defines the rules for acquisition of treasury shares. The Company does not require authorization or shareholder approval to acquire treasury shares for the purpose of transferring them to employees as part of an employee share purchase plan. In fiscal 2000, the Company purchased approximately 26 000 shares and reissued them to its employees. Furthermore, on September 30, 2000, it held 15 000 shares which will be sold to its employees in fiscal 2001. See Note 10 for a description of the Company's share purchase plan.

10. Stock-based Compensation

Stock Option Plan

Effective October 13, 1999, the extraordinary shareholders' meeting adopted a stock option plan. Under this plan, members of the Management Board, directors of subsidiaries and other eligible key employees can be granted non-transferable options to purchase up to 2.48 million shares at 115% of the average closing market price of the Company's shares during the five-day period immediately before the date of grant. For options granted immediately before the initial public offering, the exercise price is 115% of the subscription price of €31 per share. The Supervisory Board of the Company will decide annually on the number of options to be granted to the Management Board. In turn, the Management Board will decide annually on the number of shares to be granted to the other eligible employees. Up to a maximum of 30% of the plan options may be granted each year. The plan will expire after five years. Options granted under the plan may be exercised during the five-year period starting two years after the options are granted, provided that the share price has reached or exceeded the exercise price on at least one day since the grant date. In connection with the stock option plan, conditional capital of the Company in the amount of up to €2480 was created for the issuance of up to 2.48 million additional shares with no par value and a notional value of €1 each. The conditional capital became effective on October 13, 1999, when it was recorded in the German Commercial Register.

The following table shows the status of stock options outstanding as of September 30, 2000.

Status of Stock Options

As of September 30, 2000

Outstanding	
Number of shares	158 000
Weighted average remaining life in years	6
Weighted average exercise price in euros	35.65
Exercisable	
Number of shares	-
Weighted average exercise price in euro	-

The following table summarizes stock option activity during fiscal 2000.

Stock Option Activity

Fiscal 2000

	Number of options	Weighted average exercise price per share
Balance as of September 30, 1999	-	
Granted	158 000	€35.65
Exercised	-	-
Forfeited	-	-
Balance as of September 30, 2000	158 000	€35.65

The Company adopted the disclosure provisions of SFAS No. 123, Accounting for Stock-Based Compensation, but continues to measure stock-based compensation cost in accordance with APB No. 25 and its related interpretations. The weighted average fair value of stock options granted during the year ended September 30, 2000, was €21.25 per option. For pro forma purposes, the estimated fair value of the Company's stock-based awards to employees is amortized over the options' vesting period.

Had the Company measured compensation cost for the stock options granted under the fair value based method prescribed by SFAS No. 123, net income and earnings per share would have been changed to the pro forma amounts set forth below.

Net Income and Earnings per Share

Fiscal 2000

Net income	
As reported	239 964
Pro forma	238 285
Basic and diluted earnings per share	
As reported	3.68
Pro forma	3.66

The fair value of the Company's stock options used to compute pro forma net income disclosures was estimated on the date of grant using the Black-Scholes option pricing model based on the following weighted-average assumptions:

Average Values of Stock Options

Fiscal 2000

Risk-free interest rate	5.35%
Expected life of options in years	7
Expected volatility	70%
Expected dividend yield	-

Employee Share Purchase Plan

EPCOS AG adopted an employee share purchase plan, under which employees depending on their function can purchase a number of shares determined annually at a certain discount. During fiscal 2000, the Company purchased and transferred approximately 26 000 of its common shares to its employees. Compensation expense recorded under the plan in fiscal 2000 amounted to €504. The Company acquired an additional 15 000 of its common shares to be transferred to its employees in fiscal 2001.

11. Income Taxes

Income before income taxes and minority interests was attributable to domestic and foreign sources as follows:

Income before Income Taxes

As of September 30

	2000	1999	1998
Germany	68 282	10 837	64 601
Foreign	261 925	92 578	42 859
	330 207	103 415	107 460

The provision (benefit) for income taxes consisted of the following:

Provision (Benefit) for Income Taxes

As of September 30

	2000	1999	1998
Current taxes			
Germany	23 811	5 693	29 813
Foreign	59 568	21 356	17 036
Deferred taxes			
Germany	9 388	(1 533)	(1 014)
Foreign	(2 672)	2 279	773
	90 095	27 795	46 608

Income taxes include €14 728 and €37 643 for the years ended September 30, 1999 and 1998 respectively, resulting from taxes related to the Limited Partnership and to the subsidiaries and assets contributed by Siemens which were included for purposes of presentation in the consolidated financial statements. Such amounts are shown as deemed capital contributions from shareholders in the consolidated statement of shareholders' equity. Since restructuring of the Company on July 1, 1999, the Company has been responsible for filing tax returns and payment of all income taxes on a stand-alone basis.

The Company was granted a tax holiday by the government of Singapore relating to production of SAW components in Singapore until 2008. Based on the pre-tax income relating to this production facility of €68 914, €25 594 and €650 for the years ended September 30, 2000, 1999 and 1998 respectively, and the statutory tax rate of 25.5% in Singapore, the effect of the tax holiday for the years ended September 30, 2000, 1999 and 1998, on net income amounts to €17 573, €6654 and €166 respectively, and the effect on basic net income per share is €0.27, €0.11 and nil respectively.

Reconciliation of income taxes for the years ended September 30, 2000, 1999 and 1998, based on the German corporate tax rate plus the after federal tax benefit rate for trade taxes for a consolidated statutory rate of 52% for fiscal 2000 and 1999 and 57% for 1998 respectively results in the following figures:

Reconciliation of Income Taxes

As of September 30

	2000	1999	1998
Expected provision for income taxes	171 709	53 776	61 252
Dividend tax credit	(3 531)	(1 181)	(7 753)
Foreign tax rate differential	(69 005)	(31 356)	(10 707)
Change in valuation allowance	(10 429)	6 569	3 679
Decrease in deferred tax assets resulting from change in German tax rate	-	690	-
Other	1 351	(703)	137
Actual provision for income taxes	90 095	27 795	46 608

German corporate tax law applies a split-rate imputation system with regard to the taxation of the income of a corporation and its shareholders. In accordance with the tax law in effect for fiscal 2000, 1999 and 1998, retained corporate income is subject to a federal corporate tax rate of 40% for 2000 and 1999 and 45% for 1998 plus a solidarity surcharge of 5.5% on federal corporate taxes payable in all three years. Including the impact of the surcharge, the federal corporate tax rate amounts to 42.2% for the period ended September 30, 2000 and 1999, and 47.475% for 1998. The after federal tax benefit rate for trade tax is 10.263% for 2000 and 1999 and 9.525% for 1998.

Upon distribution of retained earnings to shareholders, the corporate income tax rate on such distributed earnings is reduced to 30% plus a solidarity surcharge of 5.5%, resulting in a total tax rate of 31.65% in 2000, 1999 and 1998. This reduction takes the form of a refund for taxes previously paid and is known as the dividend tax credit.

Deferred income tax assets and liabilities as of September 30, 2000 and 1999, are summarized as follows:

Deferred Income Tax Assets and Liabilities

As of September 30

	2000	1999
Inventories	5 478	3 623
Property, plant and equipment	7 199	1 062
Net operating loss and tax credit carryforwards	3 367	13 793
Accrued expenses	7 252	6 767
Pension liabilities	9 270	9 155
Other liabilities	1 612	1 001
Other	1 842	1 302
Gross deferred tax assets	36 020	36 703
Deferred tax asset valuation allowance	(718)	(11 147)
Net deferred tax assets	35 302	25 556
Receivables	(3 741)	(2 987)
Inventories	(2 190)	(2 743)
Property, plant and equipment	(20 306)	(5 368)
Other	(2 579)	(2 043)
Gross deferred tax liabilities	(28 816)	(13 141)
Deferred tax assets net	6 486	12 415

Deferred income taxes with respect to inventories relate to differences between US costing methods and valuation allowances used for book and tax purposes, and inter-company profits in inventories, which were eliminated in the consolidated financial statements.

The significant decrease in net operating losses and tax credit carryforwards relate mainly to the utilization of net operating losses (NOL) in the Portuguese, French, Spanish and other foreign subsidiaries.

Net deferred tax assets and liabilities are recorded in the consolidated balance sheets as of September 30, 2000 and 1999, as follows:

Deferred Income Tax Assets and Liabilities in Consolidated Balance Sheets

As of September 30

	2000	1999
Deferred tax assets		
Current	9 033	5 004
Non-current	5 969	12 267
Deferred tax liabilities		
Current	(4 971)	(1 690)
Non-current	(3 545)	(3 166)
	6 486	12 415

As of September 30, 2000, the Company had corporate tax net operating loss (NOL) carryforwards and tax credits amounting to €17 570 of which €5722 expire by 2005 and €11 848 expire later than 2005 or have no expiry date. The corporate tax NOL carryforwards relate mainly to losses of foreign companies and are partly only of limited use to the Company. These figures show the gross amount of the available NOLs. The Company's valuation allowances decreased from 1999 to 2000 by €10 429 and increased from 1998 to 1999 by €6569. The remaining valuation allowance reduced the deferred tax asset to a net amount that will more likely than not be realized, based on the Company's estimate of future earnings and the expected timing of temporary difference reversals.

The Company did not make provision for income taxes or foreign withholding taxes on cumulative earnings of foreign subsidiaries for the years ended September 30, 2000, 1999 and 1998, because these earnings are intended to be indefinitely reinvested in those operations. It is not practicable to estimate the amount of unrecognized deferred tax liabilities for these undistributed foreign earnings.

12. Earnings per Share

The following table sets forth the computation of basic and diluted earnings per share for the year ended September 30, 2000.

Earnings per Share

As of September 30

	2000
Net income	239 964
Denominator for basic earnings per share – weighted average shares	65 155 315
Effect of dilutive shares – stock	105 421
Denominator for diluted earnings per share – weighted average shares adjusted for dilutive shares	65 260 736
Basic and diluted earnings per common share	3.68

13. Pensions

The Company provides pension benefits principally under four defined-benefit pension plans. Virtually all of the Company's salaried employees in Germany are covered by two defined-benefit pension plans: one for employees covered by collective bargaining agreements and one for employees not covered by such agreements. The Company's employees in Brazil are covered by a funded defined-benefit pension plan. Both US subsidiaries, EPCOS, Inc., Iselin, New Jersey, and Crystal Technology, Inc., Palo Alto, California, are part of a multi-employer plan with Siemens Corporation, New York. In June 1999, the Company transferred its accumulated benefit obligation relating to the vested and non-vested portions of its defined-benefit pension plan for its employees and pensioners in Austria. The Company took out life assurance policies for €9732. The premiums were paid at the due date in November 1999 by the Company's Austrian subsidiary. The transaction was accounted for as a settlement and curtailment since the defined-benefit plan was settled and replaced by a defined-contribution plan. The corresponding gain of €4767 is included under other income (net) in the consolidated statement of income for the year ended September 30, 1999. The contribution to the defined-contribution pension fund amounted to €1248 in fiscal 2000 and €9867 in fiscal 1999.

Consolidated information regarding all of the Company's pension plans at the dates indicated is presented in the following tables.

The following table presents the changes in projected benefit obligations (PBO) during the years indicated.

Changes in Projected Benefit Obligations

	2000	1999
Projected benefit obligations at beginning of year	94 675	103 932
Service cost	2 789	2 840
Interest cost	5 815	4 965
Actuarial profits (losses)	(1 537)	(830)
Foreign exchange rate changes	1 454	(769)
Benefits paid	(2 747)	(2 680)
Prior service cost	50	-
Settlements	-	(12 783)
Projected benefit obligations at end of year	100 499	94 675

The following table presents the changes in plan assets during the years indicated.

Changes in Plan Assets

	2000	1999
Fair value of plan assets at beginning of year	2 176	2 522
Actual return on plan assets	684	522
Foreign exchange rate changes	600	(878)
Employer contributions	208	160
Benefits paid	(197)	(150)
Fair value of plan assets at end of year	3 471	2 176

A reconciliation of the funded status with the amounts recognized in the consolidated balance sheets is as follows:

Reconciliation of Funded Status with Consolidated Balance Sheets

As of September 30

	2000	1999
Funded status of plans *)	(97 028)	(92 500)
Unrecognized prior service cost	43	-
Unrecognized actuarial net gains/losses	(2 919)	(847)
Unrecognized net obligation on transition to SFAS 87	2 672	3 500
Net amount accrued in the consolidated balance sheets	(97 232)	(89 847)
Less: current portion	3 541	3 323
Long-term portion of pension liability	(93 691)	(86 524)

*) Difference between projected benefit obligations and fair value of plan assets.

The following table presents the components of net pension cost for the years ended September 2000, 1999 and 1998.

Net Pension Cost

As of September 30

	2000	1999	1998
Service cost	2 789	2 840	2 772
Interest cost	5 815	4 965	5 765
Expected return on plan assets	(335)	(115)	(152)
Amortization of unrecognized obligation	(24)	1 175	1 168
Amortization of unrecognized actuarial gains or losses	828	-	980
Unrecognized prior service cost	7	-	-
Net periodic pension cost	9 080	8 865	10 533

Assumed discount rates and rates of increase in compensation used in calculating the projected benefit obligations together with long-term rates of return on plan assets vary with the economic conditions of the country in which the retirement plans apply, which is principally Germany after settlement and curtailment of the Austrian plan. The weighted average assumptions used in calculating the actuarial values for the principal pension plans were 6.25% for the discount rate in fiscal 2000 and 6% in 1999 and 1998. The compensation increases were assumed to be 3.5% in fiscal 2000 and 1.5% to 2.5% in 1999 and 1998.

14. Supplemental Cash Flow Information

Cash payments for income taxes and interest for the years ended September 30, 2000, 1999 and 1998, were as follows:

Payments for Income Taxes and Interest

As of September 30

	2000	1999	1998
Payments for			
Income taxes	38 395	27 690	5 170
Interest net of amounts capitalized	6 048	7 851	5 804
Non-cash transactions			
Acquisition of equipment under capital leases	506	-	-

15. Financial Instruments and Risk Management

Foreign Currency Forward Contracts and Options

To reduce its exposure to certain risks inherent in its business, the Company enters into forward foreign exchange and options contracts based on forecast foreign currency transaction exposures. Contracts generally extend for a period of less than one year. These contracts are marked-to-market and included in accrued expenses and other current assets. The change in market value is included in currency gains or losses within the consolidated statements of income. The Management Board believes that the credit risk is minimal on these transactions and is involved on a daily basis in the risk management decisions, operating under rules adopted by the Supervisory Board.

Cross-currency Swaps

Until October 1, 1999, the Company was party to four cross-currency swap agreements totaling a notional amount of 65 660 Singapore dollars (€36 224). The Company agreed to pay on such notional amounts a fixed rate of interest, and the counterparties agreed to pay on such notional amounts a variable rate of interest. Simultaneously, the Company entered into foreign currency exchange contracts whereby the Company agreed to sell Singapore dollars and purchase US dollars. The Company entered into these agreements in order to convert variable-rate loans denominated in US dollars in the amount of $37 175 (€34 863) to 6.475%, 6.505% and 6.525% fixed rate loans denominated in Singapore dollars. Refer to Note 7 for details of the termination of this debt instrument.

Interest Rate Swaps

On September 30, 1998, the Company entered into an interest rate swap agreement to exchange short-term interest received on certain financial receivables from Siemens for earnings from specific investment funds with a nominal capital of 500 million Austrian schillings (€36 336); the reference interest rate was based on LIBOR. The instrument was terminated on September 30, 1999. Until that time, it was marked-to-market and included in accrued expenses or other current assets, with the offsetting gain or loss included in interest income or interest expense in the consolidated statements of income.

Concentrations of Risk

The Company has business relationships with numerous customers and affiliates around the world. Apart from Siemens, the Company has another major customer, representing 19.2% (€357 million) of total net sales in fiscal 2000. Although the Company has a large volume of its receivables from a limited number of customers, particularly Siemens, such receivables are managed under standard commercial terms. Consequently, in management's opinion, any concentration of credit risk relating to these customers is appropriately monitored. The Company believes it has adequate sources for the supply of raw materials and components for its manufacturing requirements. The Company purchases a significant amount of its raw materials and supplies from single sources on grounds of technology, availability, price, quality and other criteria. However, should a major delivery from such a single-source supplier be delayed or curtailed, the Company's ability to ship the related product in the desired quantity on time may be impaired. The Company attempts to mitigate these risks by working closely with key suppliers on product plans, strategic inventory levels and coordinated product launches.

Fair Value of Financial Instruments

The carrying amounts of the Company's significant financial instruments as of September 30, 2000 and 1999, are summarized here. The carrying values of the Company's cash and cash equivalents, trade accounts receivable, trade accounts payable, short-term borrowings and accrued expenses and other current liabilities approximate their fair market values as of September 30, 2000 and 1999, due to their short-term maturity. The carrying amounts of the Company's variable rate debt likewise approximate fair value because the interest rates are based on floating rates that reflect market rates. The fair value of the Company's long-term fixed rate debt is estimated using discounted cash flow analysis based on the Company's current borrowing rates for debt with similar maturities. Because considerable judgment is required in interpreting market data to develop estimates of fair value, the estimates do not necessarily indicate the amounts that could be realized or would be paid in a current market exchange. The effect of using different market assumptions or estimate methodologies may be material to the estimated fair value amounts.

The following table summarizes the carrying amount and fair value of the Company's fixed rate long-term debt and derivative financial instruments.

Carrying Amount and Fair Value

As of September 30

	2000			1999		
	Notional amount	Carrying amount	Fair value	Notional amount	Carrying amount	Fair value
Fixed-rate long-term debt	-	59 418	55 365	-	67 595	65 312
Forward exchange contracts	153 040	(787)	(787)	37 176	475	475
Cross-currency swaps	-	-	-	36 224	-	(2 115)

16. Commitments and Contingencies

The Company currently leases manufacturing, executive and administrative facilities and various types of equipment under operating leasing agreements. In addition, the Company has entered into capital leasing agreements for certain office equipment that expire during the next three years. Many leasing agreements include renewal or purchase options. In most cases, management expects that in the normal course of business, leasing agreements will be renewed or replaced by other agreements. As of September 30, 2000, the present value of minimum payments under capital leasing agreements was €597 after deduction of €80 for imputed interest. Rental expense for all operating leasing agreements charged against earnings amounted to €22 539, €11 348 and €6970 for the years ended September 30, 2000, 1999 and 1998 respectively. These amounts include leasing payments to Siemens of €2806, €3328 and €2471 for the three years respectively. No contingent leasing payments were made.

Assets under capital leasing agreements are included in the consolidated balance sheets as follows:

Capital Leasing Assets

As of September 30

	2000	1999
Technical equipment, machinery and other equipment	506	-
Less accumulated depreciation	71	-
Net assets under capital leasing	435	-

Depreciation of assets held under capital leasing agreements is included with depreciation and amortization expense.

The following is a summary of future minimum leasing payments under capital and operating leasing agreements that had initial or remaining periods of notice of more than one year as of September 30, 2000.

Future Minimum Leasing Payments

As of September 30

	Capital leasing	Operating leasing
2001	386	18 947
2002	179	12 932
2003	112	8 474
2004	-	7 473
2005	-	5 660
Thereafter	-	32 206
Total minimum leasing payments	677	85 692
Less amount representing interest	(80)	
Present value of net minimum capital leasing payments	597	
Less current portion of obligations under capital leasing	(354)	
Obligations under capital leasing, excluding current portion	243	

Effective October 1, 1999, the Company entered into a lease with Siemens for a facility in Austria. Annual lease payments for the ten-year term of the contract amount to €1131. The Company's Austrian subsidiary also has an operating leasing agreement for a factory building with annual leasing payments of €2178. The contract cannot be terminated during its 15-year term. The resulting commitments are included in the above table.

The Company and its subsidiaries are defendants in litigation and proceedings involving various matters. In the opinion of the Management Board, based on the advice of counsel handling such litigation and proceedings, adverse outcomes, if any, will not result in a material effect on the Company's consolidated financial condition or results of operations.

The Company is subject to extensive environmental regulation in the jurisdictions in which it operates, including requirements governing emissions into the air, effluents, and storage of hazardous materials and waste. These requirements will continue to be significant to its future operations. In the past, the Company has been exposed to liability for the remediation of soil or groundwater contamination at its facilities. The Company also may face liability for remediation of its sites located in the United States, where it could be designated a potentially responsible party under the Comprehensive Environmental Response, Compensation and Liability Act or other federal, state or local environmental remediation laws for its US locations.

The Company has not incurred any significant penalties for environmental violations and liability for damage to natural resources, property damage and environmental exposure claims, but the Company could incur some or all of these types of liabilities in the future. Because some facilities are closely located to or shared with those of other companies, including those of Siemens affiliates, the Company may have to respond to claims relating to environmental contamination not originating from the operations of the Company.

Significant financial reserves or additional compliance expenditures could be required in the future due to changes in law, new information on environmental conditions or other events, and those expenditures could adversely affect the Company's financial condition or results of operations.

17. Segment Reporting

The Company has four reportable operating segments, which are regularly evaluated by the Management Board in deciding how to allocate resources. The segments are managed separately because of differences in the nature of their respective products. The four reportable operating segments are Capacitors, Ceramic Components, Surface Acoustic Wave (SAW) Components, and Ferrites.

The Company manufactures capacitors with diverse technologies using a range of insulating materials as dielectrics. The various capacitor technologies make use of the different properties of these materials and offer unique physical and electrical performance characteristics that make them suitable for particular applications. The Capacitors segment also includes business in components for electromagnetic compatibility (EMC). The Ceramic Components segment, using advanced ceramic technologies, produces thermistors, varistors, microwave ceramic filters and resonators, and multilayer ceramic capacitors. This segment also includes gas-filled surge voltage arresters, which share many of the same protection applications and are usually used together with varistors. The SAW Components segment focuses on surface acoustic wave technology, which has diverse signal filtering and frequency control applications in the radio-frequency spectrum. The technology used by the Company to manufacture SAW components has much in common with advanced semiconductor fabrication. The Ferrites segment produces cores for inductors made of soft magnetic ferrite, an iron-oxide-based synthetic material. This segment also includes transformers and other inductive ferrite components made by winding ferrite cores with wire, plus matching accessories.

The accounting policies of the segments are the same as those described in the summary of significant accounting policies, except that the disaggregated financial results for the reportable segments have been prepared using a management approach which is consistent with how management internally analyzes financial information for the purposes of making operating decisions. Generally, the Company evaluates performance based on net income before interest income and expense, taxes and minority interest (EBIT), and accounts for inter-segment sales and transfers as if the sales and transfers were to third parties, that is, at current market prices. Net sales are attributed to geographical areas based on the location of the customer.

Information on the business segments and a reconciliation of consolidated EBIT to income before income taxes and minority interests for the fiscal years ending September 30 are presented in the following table.

Financial Information on Business Segments

€ million

	Capacitors	Ceramic Components	SAW components	Ferrites	Eliminations	Consolidated total
1998						
Net sales to external customers	330.5	312.2	256.4	108.1	-	1 007.2
Inter-segment net sales	-	-	-	2.5	(2.5)	-
Total sales	330.5	312.2	256.4	110.6	(2.5)	1 007.2
EBIT	6.8	50.4	47.3	4.1	-	108.6
Interest result, net						(1.1)
Income before income taxes and minority interest						107.5
Depreciation and amortization	24.5	17.8	27.5	8.0	1.0	78.8
Capital expenditures	65.7	28.5	79.3	9.6	2.1	185.2
Total assets	269.3	228.1	190.5	60.9	(2.1)	746.7
1999						
Net sales to external customers	369.2	312.9	351.9	106.8	-	1 140.8
Inter-segment net sales	-	-	-	1.6	(1.6)	-
Total sales	369.2	312.9	351.9	108.4	(1.6)	1 140.8
EBIT	9.9	53.2	58.2	(5.8)	-	115.5
Interest result, net						(12.1)
Income before income taxes and minority interest						103.4
Depreciation and amortization	26.9	19.8	47.2	8.2	0.4	102.5
Capital expenditures	43.7	31.7	91.2	11.3	2.6	180.5
Total assets	305.0	225.2	310.3	91.2	-	931.7
2000						
Net sales to external customers	**566.0**	**519.4**	**625.1**	**144.9**	**-**	**1 855.4**
Inter-segment net sales	**-**	**-**	**-**	**2.7**	**(2.7)**	**-**
Total sales	**566.0**	**519.4**	**625.1**	**147.6**	**(2.7)**	**1 855.4**
EBIT	**83.2**	**102.5**	**145.7**	**4.9**	**-**	**336.3**
Interest result, net						**(6.1)**
Income before income taxes and minority interest						**330.2**
Depreciation and amortization	**35.8**	**25.9**	**67.2**	**9.8**	**0.9**	**139.6**
Capital expenditures	**78.9**	**77.8**	**165.1**	**26.6**	**4.2**	**352.6**
Total assets	**410.7**	**359.2**	**422.2**	**124.3**	**-**	**1 316.4**

Information on the principal geographical areas, net sales for the years ended September 30 and identifiable assets as of September 30 are presented in the following table.

Financial Information on Geographical Areas

As of September 30, € million

	2000		1999		1998
	Net sales	Identifiable assets	Net sales	Identifiable assets	Net sales
Europe					
Germany	412.5	236.5	307.4	186.1	315.0
Austria	41.4	102.0	31.8	60.8	28.0
Other	757.6	122.4	405.4	87.1	311.5
Asia Pacific	352.3	153.7	216.9	72.5	172.8
United States	200.5	22.2	122.0	16.3	105.8
Other	91.1	20.6	57.3	15.6	74.1
Total	1 855.4	657.4	1 140.8	438.4	1 007.2

18. Acquisitions

During the years ended September 30, 2000 and 1999, the Company made a number of relatively small acquisitions, all of which were accounted for under the purchase accounting method and none of which were significant to the Company’s results of operations for the respective periods. Effective September 30, 2000, the Company acquired the remaining 26% of the total share capital of EHC, India. EPCOS now holds all outstanding shares in EHC. The purchase price exceeded the fair values of the net assets acquired by €1275, which was recorded as goodwill and is amortized on a straight-line basis over 15 years.

19. Investments in Unconsolidated Affiliates

Investments in unconsolidated subsidiaries were €4136 and €3179 as of September 30, 2000 and 1999 respectively, and are included in other assets in the consolidated balance sheets. Investments in unconsolidated affiliates at September 30, 2000, consist of a 51% investment in EPCOS (Xiaogan) Co. Ltd. (formerly Siemens Vacuum Electronic Co. Ltd.), located in the People’s Republic of China and a 25% equity investment in Becromal Norway A.S. As of September 30, 2000, the equity investment in EPCOS (Xiaogan) Co. Ltd. amounted to €2572, and the Company's share of the net gain for fiscal 2000 was €365. The equity investments are not significant to the financial position or results of operations of the Company.

Published by

EPCOS AG

Address for visitors
St.-Martin-Str. 53
81541 Munich
Germany
Postal address
P.O. Box 801709
81617 Munich
Germany

For information on content, please contact:

Investor Relations

Peter Müller
Tel. (+49 89) 636-21324
Fax (+49 89) 636-21326
peter.mueller@epcos.com

Corporate Communications

Klaus Kaesen
Tel. (+49 89) 636-22988
Fax (+49 89) 636-23549
klaus.kaesen@epcos.com

Dr. Heinz Kahlert
Tel. (+49 89) 636-21321
Fax (+49 89) 636-23549
heinz.kahlert@epcos.com

Concept and coordination

Klaus Kaesen, Dr. Heinz Kahlert,
EPCOS Corporate Communications
(responsible for content)

Ralph Schlehofer, SMP, Munich

Design

Wolfgang Baldus, Artwork, Munich

Printing and reprography

Mayr Miesbach

This Annual Report is also published in German.

Ordering address

Infoservice Fürth
Tel. (+49 911) 978-3273
Fax (+49 911) 978-3321

Ordering details

Reference code: EPC/Z024
Ordering No. English edition: EPC:50111-7600
Ordering No. German edition: EPC:50111