CONSOLIDATED FINANCIAL STATEMENTS

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Production of aluminum electrolytic capacitors

Management report on the financial statements of EPCOS AG, Munich, for the year ended September 30, 2003

General

EPCOS AG, Munich, ("EPCOS") has been a publicly traded company since October 15, 1999. Its shares are listed on all German stock exchanges and on the New York Stock Exchange. At September 30, 2003, each of the former joint venture partners Siemens AG and Matsushita Electronic Components (Europe) GmbH held 12.5% plus one share.

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

Business development

Fiscal 2003 was overshadowed by the persistently sluggish global economy. This was strained even more in the spring by the war in Iraq and the SARS crisis in Asia. In addition, increasing devaluation of the US dollar intensified price erosion for EPCOS products. Although production volumes rose, consolidated sales declined by 3% year on year.

Savings realized under the COMPETE (cost management, process excellence, time efficiency) program launched in summer 2002 more than offset the negative impact of price erosion on earnings. After the previous year's losses, both EPCOS AG and the EPCOS Group posted positive net income.

Consolidated sales are spread increasingly even among the various industries served. While automotive electronics' share of sales kept growing, from 16% to 19% year on year, the shares of industrial electronics and telecommunications remained stable. Consumer electronics accounted for a declining share of sales.

The rise in German domestic business from 24% to 28% of sales reflects the strength of the German industrial and automotive electronics markets, in which EPCOS is particularly successful. As more and more customers relocated their manufacturing operations to Asia, sales in Europe without Germany and in the NAFTA region kept falling. Conversely, Asia's share of our business kept rising.

The Capacitors segment was hit hard by severe price erosion and slack demand for tantalum capacitors. These two factors and the added burden of restructuring costs could not be fully offset by cost-cutting measures. Earnings improved only slightly over the previous year and the contribution to consolidated earnings was negative. Positive earnings were nevertheless posted by EPCOS AG thanks to a dividend paid out by the wholly owned subsidiary EPCOS S.A. in Évora, Portugal.

Despite severe price erosion, the Ceramic Components segment managed to return to profitability after the previous year's loss. Strong demand in automotive and industrial electronics plus a revival in demand for sensors and sensor systems for household appliances helped fuel this improvement. The contribution made by Ceramic Components is normally reported in the stand-alone financial statements of EPCOS AG as investment income, as many of the products in this segment are manufactured by EPCOS OHG, a wholly owned subsidiary in Deutschlandsberg, Austria. In the past fiscal year, this subsidiary's earnings (reported in financial statements drawn up under Austrian law) were negative and it made no contribution to the earnings of EPCOS AG.

Despite the temporary decline in demand caused by the SARS crisis and extra restructuring costs, the Surface Acoustic Wave Components segment posted results that were distinctly back in the black, both for EPCOS AG and the EPCOS Group. The stand-alone financial statements of EPCOS AG for this segment include startup losses for new products and a dividend paid out by EPCOS PTE LTD, a wholly owned subsidiary in Singapore.

The Ferrites and Inductors segment managed to more than halve its losses year on year, even though consolidated earnings were burdened by restructuring costs for the closure of the Bordeaux plant. In inductors, the positive trend in automotive electronics business in particular continued. Demand for ferrites for ADSL applications likewise improved.

Capital expenditure and investments

Capital expenditure in the EPCOS Group decreased by €25 million to €109 million year on year. Besides capital expenditure for the manufacture of new products, funds were mainly channeled into rationalization projects and relocations. These expenditures primarily concerned the Surface Acoustic Wave Components segment and, to a slightly lesser extent, Ceramic Components, Ferrites and Inductors, and Capacitors. The last-named segment recorded the sharpest year-on-year drop in capital expenditure.

Research and development

Total research and development expenses in the EPCOS Group were reduced by cost-cutting measures from €94 million to €69 million, equivalent to 5% of sales versus 7% in the previous year. Spending again focused on development of new products, ongoing development of existing products, and improvements to production processes.

Earnings, assets and financial position

Persistent underutilization of production capacity continued to weigh on earnings from operating activities. This was exacerbated by price erosion resulting from worldwide overcapacity. Consistent implementation of the COMPETE program launched in summer 2002 enabled us to cut costs significantly. Completion of projects to relocate manufacturing operations to countries with low labor costs also had a positive impact, as did lower restructuring costs. On balance, net income for both the EPCOS Group and EPCOS AG is back in the black.

The key balance sheet figures at September 30 are listed in the following table.

KEY BALANCE SHEET FIGURES

€ million

	EPCOS Group (US GAAP)			EPCOS AG (HGB)		
	2003	**Change in %**	**2002**	**2003**	**Change in %**	**2002**
Total assets	**1,429**	6	1,344	**944**	21	779
Shareholders' equity	**639**	0	642	**379**	13	334
Equity ratio	**45%**		48%	**40%**		43%
Fixed assets	**796**	(6)	846	**401**	6	378
Ratio of fixed to total assets	**56%**		63%	**42%**		48%

Cash flows from operating activities and cash used in investing activities resulted in a positive cash balance of €45 million thanks to reduced capital spending and much healthier earnings. The convertible bond issue in July 2003 was the main reason for net cash of €123 million provided by financing activities. After translation effects for cash and cash equivalents denominated in foreign currencies, liquidity swelled by €164 million to €196 million.

Human resources

At September 30, 2003, the number of employees worldwide totaled 13,283, a slight increase on the previous year's figure of 13,069. EPCOS AG reduced its payroll from 2,623 in the previous year to 2,214 at September 30, 2003. The general policy in the period under review was to shed jobs in countries with high labor costs in order to expand the workforce in countries with low labor costs. This expansion mainly took place in China.

Risks

EPCOS is exposed to cyclic variations in the industries in which its customers operate. Excess capacity in the market steps up price pressure. The resulting risks to sales and earnings became evident in recent fiscal years and may, despite the current economic upturn, recur in future as well. EPCOS primarily operates in markets subject to rapid technological change. There is therefore also the danger that the Company might not respond quickly enough to new market trends, thus losing market share. To prevent this, EPCOS operates a comprehensive risk management system that constantly monitors these risks, and takes any corrective action required.

Outlook

EPCOS anticipates accelerated volume growth and reduced price erosion in fiscal 2004. Strict cost and cash flow management will nevertheless continue to command top priority throughout the Company in 2004. The COMPETE program will focus on improvement of process mastery and further globalization of value added. All in all, EPCOS expects sales growth and further improvements in earnings and cash flow.

Supplementary information on the Notes to the Consolidated Financial Statements pursuant to § 292a HGB

As permitted under section 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 section 290 et seq. HGB.

Differences in presentation and valuation principles

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 section 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 section 266 HGB, on the other hand, requires companies to disclose their assets separately as fixed and current assets. The opposing side of the balance sheet is primarily broken down into shareholders' equity and liabilities.

Internally generated intangible assets

US GAAP requires capitalization of certain internally generated intangible assets, such as computer software under defined conditions. German commercial law prohibits the capitalization of internally generated intangible fixed assets under section 248 (2) HGB.

Goodwill

As a result of adopting Statement of Financial Accounting Standard ("SFAS") No. 142 *Goodwill and Intangible Assets*, goodwill is no longer subject to regular amortization under US GAAP, but reviewed for impairment at least annually or when circumstances indicate possible impairment. Contrary to US GAAP, goodwill capitalized in accordance with section 255 (4) HGB or section 301 HGB is amortized by at least a quarter in each subsequent fiscal year or amortized periodically over its expected useful economic life.

Capitalization of interest on borrowings for assets under construction

Interest incurred during the construction of property, plant and equipment must be capitalized when applying US GAAP. Its recognition is generally prohibited by German commercial law. Exceptions exist where loans 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 also 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 lease agreements

Rights to assets under leases are capitalized in certain circumstances under US GAAP. The rights under the lease capitalized as an asset are depreciated over the useful life of the asset or the term of the lease, whichever is shorter. Payment obligations relating to such leases are recorded as liabilities at their present value. In accordance with HGB principles, rights to assets under leases may also be capitalized under certain circumstances. However, the criteria applied under HGB are different to those under US GAAP.

Deferred taxes

In accordance with German accounting principles, deferred tax assets resulting from tax losses brought forward 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 deferred tax assets are generally reported and are to be evaluated with regard to the probability or improbability of the respective tax losses being used. The outcome of this analysis can result in an allowance against the carrying value of the deferred tax asset. Capitalization of deferred tax assets in single entity financial statements is optional under German commercial law, but mandatory under US GAAP.

Allowance for doubtful accounts receivable

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 treasury shares for transfer to employees

In accordance with US GAAP, treasury shares must be 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. The difference between the preferential price and the purchase price incurred by the Company is charged to personnel expenses under German commercial law. Under US GAAP, the amount recorded as personnel expenses is based on the benefit granted to employees on the grant date.

Pension accruals and accruals for service anniversary awards

These accruals are calculated for US GAAP purposes on the basis of the Projected Unit Credit Method. The yardstick for measuring the defined benefit pension obligations is the Projected Benefit Obligation (PBO). The PBO is the present value of the pension rights earned as of the valuation date. The method takes into account current country-specific interest rates derived from the long-term capital market, future probable rates of salary increases and probable pension increases.

By contrast, the calculation in accordance with German commercial law is carried out on the basis of the present value method, whereby 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 to German commercial law, accruals for future expenses are prohibited.

According to US GAAP, provisions for contingent liabilities may only be made if it seems probable that the liability will come into existence and the amount of liability can reasonably be estimated. According to German accounting standards, accruals are also to be made when their utilization is sufficiently probable.

Accounting for derivatives

Under German commercial law, derivative financial instruments, as pending 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 recorded as of the balance sheet date at their fair value. Where the conditions set out in SFAS No. 133 in respect of cash flow hedges are fulfilled, the difference arising may be recorded directly in shareholders' equity without being reported in the income statement. Further, in some cases (fair value hedge), the hedged item is recognized in the balance sheet.

Investments

The Company holds investments that are classified exclusively as available for sale securities under US GAAP, which are stated at their fair value as at the balance sheet date. Unless there has been a permanent diminution in value, unrealized gains and losses on these assets are reported directly in shareholders' equity (Other comprehensive income) after accounting for deferred taxation.

Section 253 of the HGB requires that investments are stated at the lower of their cost or fair value as at the balance sheet date.

Conversion of foreign currencies

According to US GAAP, accounts receivable and liabilities in foreign currencies are converted at the rate prevailing at the balance sheet date. Unrealized profits and losses are reported in the income statement. According to the German accounting principles, foreign currency accounts receivable are accounted for according to the lower of cost or market principle and foreign currency liabilities according to the "higher of cost or market". This means that only unrealized losses are accounted for, whereas unrealized profits from currency rate movements remain unaccounted for at the balance sheet date.

According to US GAAP, when subsidiaries' annual financial statements in foreign currencies are converted for inclusion in the consolidated financial statements, the concept of functional currency is applied. According to this concept, the modified closing rate method is applied to convert financial statements of autonomous subsidiaries. If the functional currency of the subsidiary is its local currency, foreign currency differences are shown as a separate component of equity. In the preparation of the consolidated financial statements according to the German accounting principles, subsidiaries' annual financial statements in foreign currencies are converted using rates prevailing at the balance sheet date.

Share option scheme

Options granted to employees are accounted for under US GAAP in accordance with APB Opinion 25. To the extent that the fair value of the shares does not exceed the exercise price, there is no charge to the income statement.

Under the HGB, options do not affect the income statement.

Capital consolidation

Under US GAAP, business combinations are carried out in practice by means of a revaluation in proportion to the participating interest held under the *purchase* method. Assets (including intangible assets) and liabilities have to be shown at their current market value as of the acquisition date at the amount attributable to the participating interest held by the purchaser. After offsetting the investment book value against the proportionate equity that results after revaluation, the remaining difference is capitalized as *goodwill*.

In accordance with German Accounting Standard No. 4, capital consolidation is performed by the *revaluation* method. Under this method, unrealized gains and losses are taken into account from the outset, as is the case in US GAAP. Contrary to US GAAP, however, this procedure is applied irrespective of the proportionate holding. Any remaining difference is to be capitalized as goodwill under intangible assets and, in contrast to US GAAP, amortized over the useful economic life.

Under US GAAP, capital owned by minority shareholders is reported as part of non-equity funds, under HGB it is disclosed as part of equity with an appropriate description.

Consolidated statements of income

For US GAAP, the consolidated statements of income are prepared in accordance with the cost of sales format. Under HGB the type of expenditure format is also permitted.

Statement in accordance with section 160 No. 8 German Stock Corporation Law *(Aktiengesetz,* AktG*)*

Capital Guardian Trust Company, Los Angeles, USA, has informed the Company that on November 12, 2002, its voting rights in EPCOS AG fell below the threshold of 5%. From that date, the company's share in voting rights amounts to 4.85%. This corresponds to 3,169,909 votes.

The company The Capital Group Companies, Inc., Los Angeles, USA, has informed the Company that on January 14, 2003, its voting rights in EPCOS AG fell below the threshold of 10%. From that date, the company's share in voting rights amounts to 9.81%. This corresponds to 6,402,949 votes.

Deutsche Bank AG, Frankfurt am Main, Germany, has informed the Company that on January 31, 2003, the voting rights of its subsidiary, DWS Investment GmbH, Frankfurt am Main, in EPCOS AG exceeded the threshold of 5%. From that date, the company's share in voting rights amounts to 5.01%.

Deutsche Bank AG, Frankfurt am Main, Germany, has informed the Company that on April 9, 2003, the voting rights of its subsidiary, DWS Investment GmbH, Frankfurt am Main, in EPCOS AG fell below the threshold of 5%. From that date, the company's share in voting rights amounts to 4.97%.

The company The Capital Group Companies, Inc., Los Angeles, USA, has informed the Company that on April 11, 2003, its voting rights in EPCOS AG fell below the threshold of 5%. From that date, the company's share in voting rights amounts to 4.92%. This corresponds to 3,214,155 votes.

Matsushita Electric Europe (Headquarters) Ltd., Uxbridge, United Kingdom, has informed the Company that on May 30, 2003, its voting rights in EPCOS AG exceeded the thresholds of 5% and 10%. The company is presently entitled to 8,162,501 of 65,300,000 voting rights in EPCOS AG. This corresponds to a share in voting rights of 12.5% plus one vote.

At the same time, Matsushita Electronic Components Co., Ltd. ("MACO"), Osaka, Japan, informed the Company that on April 25, 2003, its voting rights in EPCOS AG fell below the thresholds of 5% and 10%.

Morgan Stanley & Co. International Limited, London, United Kingdom, has informed the Company that on July 21, 2003, its voting rights in EPCOS AG exceeded the threshold of 5%. From that date, the company's share in voting rights amounts to 5.16%. This corresponds to 3,373,208 votes.

Morgan Stanley & Co. International Limited, London, United Kingdom, has informed the Company that on August 28, 2003, its voting rights in EPCOS AG fell below the threshold of 5%. From that date, the company's share in voting rights amounts to 4.86%. This corresponds to 3,176,317 votes.

Statement in accordance with section 161 AktG

The statement of compliance with the Corporate Governance Code in accordance with section 161 AktG was provided by the Management Board and Supervisory Board on October 16, 2002, and made permanently available to shareholders via the internet on the EPCOS homepage.

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, 2003 and 2002, and the related consolidated statements of operations, shareholders' equity and comprehensive income (loss), and cash flows for each of the years ended September 30, 2003, 2002 and 2001. 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 the United States of America. 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, 2003 and 2002, and the results of their operations and their cash flows for each of the years ended September 30, 2003, 2002 and 2001 in conformity with generally accepted accounting principles in the United States of America.

Munich, Germany, November 17, 2003

KPMG Deutsche Treuhand-Gesellschaft
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Berger   Dr. Kreher
Independent auditors

CONSOLIDATED STATEMENTS OF OPERATIONS

For the years ended September 30, 2003, 2002 and 2001 (€ thousand, except per share data)

	Note	2003	2002	2001
Net sales				
Third parties		1,043,455	1,075,521	1,459,262
Related parties	9	228,153	236,227	446,068
Total net sales		1,271,608	1,311,748	1,905,330
Cost of goods sold	9	1,059,249	1,148,289	1,440,325
Gross profit		212,359	163,459	465,005
Research and development expenses	9	69,423	94,028	93,686
Marketing and selling expenses	9	120,894	134,240	141,540
General and administrative expenses	9	14,029	12,698	15,733
		204,346	240,966	250,959
Operating income (loss)		8,013	(77,507)	214,046
Interest income		1,879	1,745	4,642
Interest expense	9	(10,714)	(8,226)	(6,846)
Foreign exchange losses, net		(6,295)	(4,236)	(7,553)
Other income, net	13	4,359	10,072	1,566
Share of net losses of unconsolidated affiliates		(534)	(386)	(122)
(Loss) income before income taxes and minority interest		(3,292)	(78,538)	205,733
Benefit (provision) for income taxes	14	10,194	40,054	(55,942)
Minority interest		(158)	(16)	(1,154)
Net income (loss)		**6,744**	**(38,500)**	**148,637**
Basic and diluted earnings (loss) per share	15	0.10	(0.59)	2.28

See Notes to Consolidated Financial Statements

CONSOLIDATED BALANCE SHEETS

As of September 30, 2003 and 2002 (€ thousand, except share data)

	Note	2003	2002
ASSETS			
Current assets			
Cash and cash equivalents		195,797	31,707
Accounts receivable, net	4, 9	185,292	194,283
Inventories, net	5	205,123	208,261
Prepaid expenses and other current assets		38,884	53,485
Deferred income taxes	14	7,523	9,719
Total current assets		632,619	497,455
Property, plant and equipment, net	6	649,527	737,132
Intangible assets, net	6, 21	39,940	35,202
Deferred income taxes	14	83,022	56,407
Other assets	6	23,922	17,395
Total assets		**1,429,030**	**1,343,591**
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Accounts payable	9	132,887	135,952
Accrued expenses and other current liabilities	7	146,846	181,532
Short-term borrowings	8	96,728	126,364
Current portion of long-term debt	8	15,624	17,332
Deferred income taxes	14	12,236	9,336
Total current liabilities		404,321	470,516
Long-term debt, excluding current installments	8	215,003	65,507
Pension liabilities	16	118,437	107,350
Deferred income taxes	14	14,263	12,045
Other liabilities		37,635	44,021
Minority interest		695	1,974
Total liabilities		790,354	701,413
Commitments and contingencies	19		
Shareholders' equity	10		
Share capital – 87,300,000 shares authorized, 65,300,000 shares issued and 65,275,000 outstanding for 2003 and 2002		65,300	65,300
Additional paid-in capital		255,225	255,225
Retained earnings		357,282	350,538
Accumulated other comprehensive loss		(38,253)	(28,007)
Treasury shares at cost (25,000 shares for 2003 and 2002)	11	(878)	(878)
Total shareholders' equity		638,676	642,178
Total liabilities and shareholders' equity		**1,429,030**	**1,343,591**

See Notes to Consolidated Financial Statements

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY AND COMPREHENSIVE INCOME (LOSS)

For the years ended September 30, 2003, 2002 and 2001 (€ thousand)

	Share capital	Additional paid-in capital	Retained earnings	Accumulated other comprehensive income (loss)	Treasury shares	Total shareholders' equity
Balances as of September 30, 2000	**65,300**	**255,666**	**305,674**	**(403)**	**(1,380)**	**624,857**
Comprehensive Income:						
Net income	-	-	148,637	-	-	148,637
Currency translation adjustment	-	-	-	(14,034)	-	(14,034)
Total comprehensive income						134,603
Cash dividends	-	-	(65,273)	-	-	(65,273)
Purchase of treasury stock	-	-	-	-	(1,093)	(1,093)
Sale of treasury stock	-	(310)	-	-	2,473	2,163
Balances as of September 30, 2001	**65,300**	**255,356**	**389,038**	**(14,437)**	**-**	**695,257**
Comprehensive Loss:						
Net loss	-	-	(38,500)	-	-	(38,500)
Currency translation adjustment	-	-	-	(13,363)	-	(13,363)
Unrealized losses on securities	-	-	-	(207)	-	(207)
Total comprehensive loss						(52,070)
Purchase of treasury stock	-	-	-	-	(2,072)	(2,072)
Sale of treasury stock	-	(131)	-	-	1,194	1,063
Balances as of September 30, 2002	**65,300**	**255,225**	**350,538**	**(28,007)**	**(878)**	**642,178**
Comprehensive Loss:						
Net income	**–**	**–**	**6,744**	**–**	**–**	**6,744**
Currency translation adjustment	**–**	**–**	**–**	**(8,415)**	**–**	**(8,415)**
Unrealized gains on securities	**–**	**–**	**–**	**219**	**–**	**219**
Reclassification of losses to net income	**–**	**–**	**–**	**207**	**–**	**207**
Cash flow hedges (net of tax of 373)	**–**	**–**	**–**	**722**	**–**	**722**
Additional minimum pension liabilities (net of tax of 2,060)	**–**	**–**	**–**	**(2,979)**	**–**	**(2,979)**
Total comprehensive loss						**(3,502)**
Balances as of September 30, 2003	**65,300**	**255,225**	**357,282**	**(38,253)**	**(878)**	**638,676**

See Notes to Consolidated Financial Statements

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended September 30, 2003, 2002 and 2001 (€ thousand)

	2003	2002	2001
Cash flows from operating activities			
Net income (loss)	**6,744**	(38,500)	148,637
Adjustment to reconcile net income (loss) to net cash provided by operating activities			
Depreciation and amortization	**157,270**	171,570	193,900
Provision for doubtful accounts	**(872)**	182	2,842
Loss on sale of property, plant and equipment	**1,106**	98	1,139
Share of net losses of unconsolidated affiliates	**534**	386	122
Minority interest	**158**	16	1,154
Deferred income tax	**(18,040)**	(44,101)	3,123
Stock-based compensation	**-**	313	691
Changes in assets and liabilities, excluding effects of acquisitions			
Decrease in accounts receivable	**5,468**	37,725	37,813
(Increase) Decrease in inventories	**(1,172)**	21,893	(10,886)
Decrease (Increase) in prepaid expenses and other current assets	**15,509**	(13,063)	11,589
Decrease in accounts payable	**(576)**	(9,439)	(76,511)
Decrease in accrued expenses and other current liabilities	**(29,635)**	(43,438)	(5,251)
Increase in other assets	**(4,683)**	(1,917)	(1,815)
Increase in pension liabilities	**9,449**	6,827	6,942
(Decrease) Increase in other liabilities	**(5,508)**	(4,301)	13,560
Net cash provided by operating activities	**135,752**	**84,251**	**327,049**
Cash flows from investing activities			
Proceeds from sale of equipment	**17,956**	4,793	2,802
Net decrease in financial receivables from third parties	**-**	-	50
Acquisitions of businesses, net of cash acquired	**(9,703)**	(2,813)	(30,085)
Capital expenditures	**(98,391)**	(131,540)	(348,913)
Dividends from (Investments in) unconsolidated affiliates	**(877)**	(127)	248
Net cash used in investing activities	**(91,015)**	**(129,687)**	**(375,898)**
Cash flows from financing activities			
Net decrease in financial liabilities to Siemens	**-**	-	(30)
Net (decrease) increase in short-term borrowings	**(26,267)**	26,096	63,715
Extinguishment of long-term debt	**(9,548)**	-	-
Proceeds from issuance of long-term debt	**176,254**	39,434	8,867
Principal payments on long-term debt	**(17,332)**	(21,753)	(11,639)
Principal payments under capital lease obligations	**(581)**	(517)	(435)
Cash dividends	**-**	-	(65,273)
Purchase of treasury stock	**-**	(2,072)	(1,093)
Sale of treasury stock	**-**	663	1,472
Net cash provided by (used in) financing activities	**122,526**	**41,851**	**(4,416)**
Effect of exchange rate changes on cash and cash equivalents	**(3,173)**	(2,442)	(1,077)
Net increase (decrease) in cash and cash equivalents	**164,090**	(6,027)	(54,342)
Cash and cash equivalents at beginning of year	**31,707**	37,734	92,076
Cash and cash equivalents at end of year	**195,797**	**31,707**	**37,734**

See Notes to Consolidated Financial Statements

EPCOS AG – Notes to Consolidated Financial Statements

For the years ended September 30, 2003, 2002 and 2001

1. Description of the Company and Basis of Presentation

EPCOS AG (the "Company") is a leading producer and supplier of passive electronic components with headquarters 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 all types of electronic circuitry. The Company designs its product offerings to meet the needs of its principal customer groups, such as the automotive, consumer and industrial electronics industries and the information technology industry. Customers consist of equipment manufacturers and other companies that make modules or subsystems for equipment manufacturers, and distributors.

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") with Matsushita Electric Industrial Co., Ltd. and Matsushita Electronic Components Co., Ltd. ("Matsushita"). Siemens Matsushita Components consisted of 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. After reorganizing the Company and in preparation for an initial public offering, S+M GmbH converted to a German stock corporation (*Aktiengesellschaft*, AG) and changed its Company name to EPCOS AG on September 2, 1999.

After the IPO in October 1999, and after the public sale of shares of EPCOS AG, Siemens and Matsushita Group each hold 12.5% plus one share of the Company's outstanding share capital.

The 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.

2. Summary of Significant Accounting Policies

(a) Principles of Consolidation

All significant companies over which the Company has legal and effective control are consolidated in accordance with US GAAP. Acquisition price is offset against group share of equity as at the acquisition date.

All significant intercompany balances and transactions as well as all significant intra group profits or losses arising on such transactions have been eliminated in the consolidated financial statements.

Certain prior year amounts have been reclassified to conform to the current year presentation.

(b) Investments in Unconsolidated Affiliates

Businesses over 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.

(c) Consolidated Group

The consolidated financial statements include all material domestic and foreign subsidiaries which EPCOS AG directly or indirectly controls. As of September 30, 2003, 2002 and 2001, the following number of companies were consolidated alongside EPCOS AG:

	2003	2002	2001
Consolidated			
Domestic	**2**	2	2
Foreign	**27**	26	25
	29	28	27
At Equity	**1**	1	1
	30	**29**	**28**

The consolidated financial data for these companies is derived from their individual financial statements as of September 30 of each respective year.

Refer to Note 21 for changes in the companies included in the consolidated financial statements. Comparability of the consolidated financial statements with the prior year has not been impacted by these changes.

(d) Cash Equivalents

For the purpose 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. These include both bank balances as well as short-term deposits with a maturity of three months or less as at the date of deposit.

(e) Inventories

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

(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. Renewal or improvement costs are capitalized, insofar as they enhance the value of the related asset. On disposal, historical acquisition or production costs and accumulated depreciation are written off, and the difference between this net book value and the disposal proceeds is recorded in the income statement as a gain or loss.

Depreciation for all foreign subsidiaries is computed on the straight-line method. For the German group companies, depreciation for assets acquired in fiscal 2000 or earlier is computed on either the straight-line method or the declining balance method if the declining balance method resulted in higher depreciation over the estimated useful lives of the assets. Additions after October 1, 2000, are depreciated using the straight-line method only, consistent with the foreign subsidiaries. Differences arising from this change are not significant.

In general, the estimated useful lives of depreciable assets are assigned as follows:

Buildings and improvements to rented property	5 to 50 years
Machinery and other equipment	5 to 10 years
Other assets, office fixtures and fittings	3 to 5 years

(g) Equipment under Capital Leases

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

(h) Intangible Assets

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.

Intangible assets other than goodwill, which is the excess of purchase price over fair value of net assets of companies acquired, consist of customer lists, patents and licenses. Patents are amortized over the term of the patent. Customer lists are amortized over 10 years. Licenses are amortized over the term of the licensing agreement.

As from October 1, 2001, the Company adopted Statement of Financial Accounting Standard ("SFAS") No. 142 *Goodwill and Intangible Assets*, whereby goodwill is no longer subjected to regular amortization. The goodwill allocated to business units will be reviewed at least annually or when circumstances indicate potential impairment and, if necessary, be written down to fair value. Prior to the adoption of SFAS No. 142, goodwill was amortized on a straight-line basis over the expected periods to be benefited, generally 15 years.

(i) Impairment of Long-lived Assets

The Company reviews long-lived assets, including amortizable 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, or group of assets, with future undiscounted cash flows expected to be generated by the asset, or group of assets. 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 net cash flows. Considerable management judgment is necessary to estimate discounted future net cash flows. Accordingly, actual results could vary significantly from such estimates.

(j) Revenue Recognition

Revenues resulting from sales of products are recognized under SEC Staff Accounting Bulletin ("SAB") No. 101 *Revenue Recognition in Financial Statements* when corresponding agreements exist, the purchase price is fixed or clearly defined, products are shipped and the payment of the customer is reasonable predictable. Revenue from sales is recognized net of discounts, customer bonuses and rebates granted.

(k) Other 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 temporary 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 in principle to reduce foreign exchange rate risks and fluctuations of market prices of precious metals. The Company does not hold or issue derivative financial instruments for trading or speculative purposes. The Company enters into forward foreign exchange contracts and commodity contracts to reduce its exposure to certain risks inherent within its business.

All derivative financial instruments, including those which are embedded in other contracts, are recorded in the balance sheet at fair value. The market value of the derivative financial instruments is recorded as other current assets or other current liabilities.

The Company accounts for some of its financial instruments as cash flow hedges.

The notional amounts of these transactions are not included within the consolidated financial statements. The gains or losses resulting from these deals are either shown as foreign exchange gain or loss (for forward foreign exchange contracts) and other income/loss (for forward commodity contracts) in the consolidated statement of operations or recorded in accumulated other comprehensive income/loss if the financial instruments are designated as hedges of forcasted transactions. These instruments fulfil all requirements of hedge accounting including effectiveness. The gains or losses reported in accumulated other comprehensive income/loss are shown in the consolidated statement of operations when the hedged transactions are recognized. The ineffective portion of the hedged transactions is always included in the consolidated statement of operations.

Reductions or extra charges of financial instruments or prices of options are included in the net income/loss over the life of the forward contract.

For hedging of currency- and interest rate risks, the Company entered in cross-currency swaps.

The market value of the financial instruments including derivatives is disclosed in Note 18.

(n) Securities

The Company classifies its existing marketable securities as available for sale in accordance with SFAS No. 115 *Accounting for Certain Investments in Debt and Equity Securities*. These securities are carried at fair market value with unrealized gains or losses reported in shareholders' equity as a component of other comprehensive income (loss), unless impaired. Gains or losses on securities sold or impaired are booked in the statements of operations.

(o) Foreign Currencies

Transactions in Foreign Currencies

Purchases and sales in foreign currencies are converted using the daily rate of exchange at the time of the transaction. Monetary assets and liabilities denominated in non functional currencies are converted into the functional currency at the rate applying at the balance sheet date. The resulting foreign currency gains and losses are included in the income statement.

Translation of Financial Statements into Euros

The Group's reporting currency is the euro (€). The balance sheet items of subsidiary companies whose functional currency is not the euro are translated at the exchange rate applying on the balance sheet date. Income statement items are converted at the weighted average exchange rate for the respective year. The resulting translation differences are reported as separate components of equity under other comprehensive income or loss.

(p) 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.

(q) Earnings per Share

Basic earnings per share are computed by dividing net income (loss) by the weighted average number of common shares outstanding for the year. By the calculation of the diluted earnings per share the weighted average of the outstanding shares is increased by the number of the additional shares that would occur if the potentially dilutive common shares would have been issued. For computations of basic and diluted earnings per share, see Note 15.

(r) Stock-based Compensation

On September 30, 2003 the Company has a stock based compensation plan for employees and members of the Management Board. For further details of stock-based compensation, see Note 11. Stock-based compensation is accounted for in accordance with Accounting Principles Board Opinion ("APB") No. 25 *Accounting for Stock Issued to Employees*, 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 measurement date over the amount the employee must

pay. The compensation expense in the statements of operations is nil for the years 2001 to 2003 because the exercise price on the measurement date was identical with the market value of the corresponding shares.

For pro forma purposes, the estimated fair value of the Company's stock-based awards to employees is amortized over the options' vesting period of two years. Had the Company measured compensation cost for the stock options granted under the fair value based method prescribed by SFAS No. 123, net income (loss) and earnings (loss) per share would have been changed to the pro forma amounts set forth below:

NET INCOME (LOSS) AND EARNINGS (LOSS) PER SHARE

Year ended September 30 (€ thousand)

	2003	2002	2001
Net income (loss)			
As reported	6,744	(38,500)	148,637
Less: total compensation expense for stock options (calculated by the fair value method)	(9,617)	(13,824)	(8,868)
Pro forma	(2,873)	(52,324)	139,769
Basic and diluted earnings (loss) per share (in €)			
As reported	0.10	(0.59)	2.28
Pro forma	(0.04)	(0.80)	2.14

3. Accounting changes

On October 1, 2002, the Company adopted SFAS No. 143 *Accounting for Asset Retirement Obligations*, which addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. The standard applies to legal obligations associated with the retirement of long-lived assets that result from the acquisition, construction, development or normal use of the asset. SFAS No. 143 requires that the fair value of a liability for an asset retirement obligation be recognized in the period in which it is incurred if a reasonable estimate of fair value can be made. Such estimates are generally determined based upon estimated future cash flows discounted using a credit-adjusted risk-free interest rate. The fair value of the liability is added to the carrying amount of the associated asset and this additional carrying amount is depreciated over the life of the asset. The liability is accreted at the end of each period through charges to operating expense. If the obligation is settled for other than the carrying amount of the liability, the Company will recognize a gain or loss on settlement. The adoption of SFAS No. 143 had no material impact on the Company's financial statements.

On October 1, 2002, the Company adopted SFAS No. 144 *Accounting for the Impairment or Disposal of Long-Lived Assets*, which supersedes SFAS No. 121 *Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of*, and the accounting and reporting provisions of Accounting Principles Board Opinion No. 30 *Reporting the Results of Operations – Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions*, for the disposal of a segment of a business. This statement establishes a single accounting model based on SFAS No. 121 for long-lived assets to be disposed of by sale, including discontinued operations. Major changes include additional criteria for long-lived assets to qualify as "held for sale" and the requirement that long-lived assets to be disposed of other than by sale be classified as held and used until the disposal transaction occurs. SFAS No. 144 retains the current requirement to separately report discontinued operations but expands that reporting to include a component of an entity (rather than only a segment of a business) that either has been disposed of or is classified as held for sale. SFAS No. 144 requires long-lived assets to be disposed of by sale to be recorded at the lower of carrying amount or fair value less costs to sell and to cease depreciation. EPCOS applied the provisions of SFAS No. 144 prospectively and the adoption of SFAS No. 144 had no material impact on the Company's financial statements.

On January 1, 2003, the Company adopted SFAS No. 146 *Accounting for Costs Associated with Exit or Disposal Activities*, which nullifies Emerging Issues Task Force (EITF) Issue 94-3 *Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)*. SFAS No. 146 requires that a liability for costs associated with exit or disposal activities first be recognized when the liability is irrevocably incurred rather than at the date of management's commitment to an exit or disposal plan. Examples of costs covered by the standard include certain employee severance costs, contract termination costs and costs to consolidate or close facilities or relocate employees. In addition, SFAS No. 146 stipulates that the liability be measured at fair value and adjusted for changes in estimated cash flows. The provisions of the new standard were effective prospectively for exit or disposal activities initiated after December 31, 2002. The adoption of SFAS No. 146 did not affect the Company's financial statements.

On January 1, 2003, the Company adopted FASB Interpretation No. 45 *Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others* (FIN 45), which addresses the disclosure to be made by a guarantor in its interim and annual financial statements about its obligation under guarantees. FIN 45 also requires the guarantor to recognize a liability for the non-contingent component of the guarantee, that is the obligation to stand ready to perform in the event that specified triggering events or conditions occur. The initial measurement of this liability is the fair value of the guarantee at inception. The Company has adopted the disclosure requirements

of FIN 45 (for information related to product warranties, see below) and has applied the recognition and measurement provisions for all guarantees entered into or modified after December 31, 2002. Accruals for product warranties are recorded in cost of sales at the time the related sale is recognized, and are established on an individual basis except for consumer products, which are accrued for on an aggregate basis. The estimates reflect historic trends of warranty costs as well as information regarding product failure experienced during construction, installation or testing of products. In the case of new products, expert opinions and industry data are also taken into consideration in estimating product warranty accruals.

In December 2002, the FASB issued SFAS No. 148 *Accounting for Stock-Based Compensation – Transition and Disclosure*, which amends SFAS No. 123 *Accounting for Stock-Based Compensation*. SFAS No. 148 provides alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition this statement amends the disclosure requirements of SFAS No. 123 to require prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results. The transition provisions are effective for financial statements for fiscal years ending after December 15, 2002. The enhanced disclosure requirements are effective for periods beginning after December 15, 2002. Pursuant to SFAS No. 123, the Company has elected to apply Accounting Principles Board Opinion No. 25 *Accounting for Stock Issued to Employees*, and related Interpretations in accounting for its stock-based compensation plans.

In May 2003, the FASB issued SFAS No. 150 *Accounting for Certain Financial Instruments with Characteristics of Liabilities or Equity or both* which regulates how issuers have to report and evaluate specific financial instruments with characteristics of liabilities or equity. SFAS No. 150 demands that the issuer has to report financial instruments which were until yet often defined as equity now have to be shown as liability (or as asset in specific cases). SFAS No. 150 regulates further the classification of such financial instruments that include the commitment for the issue of own common shares. The changes in this statement lead to a more detailed description of the liabilities and the equity of a company and help investors and creditors to estimate the amount, the point in time and the probability of possible cash outflow and issuance of own shares. The Statement is effective for financial instruments that are issued or modified after May 31, 2003. SFAS No. 150 is effective for periods ending after June 15, 2003, with the exception of mandatorily redeemable instruments of non-public entities. The adoption of SFAS No. 150 had no material impact on the Company's financial statements.

In January 2003, the FASB issued Interpretation No. 46 *Consolidation of Variable Interest Entities* which regulates the consolidation of variable interest entities that fit to one or both following criterions: (1) The investment in the shares with participation of losses is not sufficient to finance the activities of the entity without the support of third parties and (2) the investors are missing one or more specific material attributes that are usual for a significant influence. The interpretation demands that existing non consolidated variable interest entities have to be consolidated by the preferred party when the risks are not really distributed among all participants. The Interpretation is effective for all variable interest entities that were founded after January 31, 2003, or for such entities a company purchased shares after this date. On October 9, the FASB Staff Position FIN 46-6 *Implementation of FASB Interpretation No. 46, Consolidation of Variable Interest Entities* was issued. This position delays the date of implementation for these variable interest entities of the Company that were founded before February 1, 2003, until December 31, 2003. The Company estimated the effect of using Interpretation No. 46 and ascertained that there is no material impact on the Company's financial statements.

In July 2003, the Emerging Issues Task Force (EITF) issued an agreement concerning Issue 00-21 *Revenue Arrangements with Multiple Deliverables*. This rule sets criteria for the recognition of revenues by such contracts that include several components. Revenue recognition under EITF 00-21 is only permitted when a fair value of the not delivered goods is available and the individual part of the contract alone is valuable for the purchaser. EITF 00-21 details how to separate the total sales of an order into the individual components. This agreement has to be applied by the Company for the fiscal year beginning October 1, 2003. The Company estimates that the adoption of Issue 00-21 will have no material impact on the Company's financial statements.

4. 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, 2003, 2002 and 2001:

ALLOWANCE FOR DOUBTFUL ACCOUNTS

(€ thousand)

	2003	2002	2001
Allowance for doubtful accounts, beginning of year	6,667	8,449	7,795
(Reductions) additions charged to bad debt	(872)	182	2,842
Write-offs charged against the allowance	(1,172)	(1,601)	(1,755)
Recoveries of amounts previously written-off	20	23	27
Foreign exchange translation adjustment	(289)	(386)	(460)
Allowance for doubtful accounts, end of year	4,354	6,667	8,449

The amount of factored accounts receivables for the years ended September 30, 2003, 2002 and 2001, respectively was €139.788 million, €125.114 million and nil respectively. Total interest expense on these transactions amounted to €0.336 million, €0.407 million and nil respectively for the years ended September 30, 2003, 2002 and 2001 respectively.

5. Inventories, Net

NET INVENTORIES

As of September 30 (€ thousand)

	2003	2002
Raw materials and supplies	**52,518**	49,520
Work in process	**67,344**	60,678
Finished products	**85,261**	98,063
Total inventories, net	**205,123**	208,261

Amounts appearing in the preceding table are presented net of valuation allowances of €27.875 million and €35.755 million as of September 30, 2003 and 2002 respectively. The development in the inventory valuation allowance for the years ended September 30, 2003, 2002 and 2001, is as follows:

VALUATION ALLOWANCE FOR INVENTORIES

(€ thousand)

	2003	2002	2001
Valuation allowance, beginning of year	**35,755**	37,623	17,812
Additions charged to cost of goods sold	**11,907**	12,582	27,892
Write-downs charged against the allowance	**(19,230)**	(13,642)	(7,532)
Foreign exchange translation adjustment	**(557)**	(808)	(549)
Valuation allowance, end of year	**27,875**	35,755	37,623

The increase in the valuation allowance in fiscal 2001 partly resulted from excess inventories of raw materials for tantalum of €7.676 million, a reduction in the price of tantalum raw material of €2.624 million and slow moving or obsolete finished products in the amount of €3.652 million.

6. Fixed Assets, Net

Fixed Asset Schedule

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 (€ thousand)

	2002	Additions	Reclassi-fication	Disposals	Translation adjustment	2003
Goodwill	14,532	8,909	-	-	(196)	23,245
Other intangible assets	39,723	3,011	-	(13)	(183)	42,538
Intangible assets	**54,255**	**11,920**	**-**	**(13)**	**(379)**	**65,783**
Land	18,580	-	-	(8,306)	(564)	9,710
Buildings	157,511	3,986	1,254	(11,780)	(3,839)	147,132
Technical equipment, machinery and other equipment	1,332,213	56,227	52,332	(101,328)	(16,289)	1,323,155
Construction in progress	62,622	35,761	(53,586)	-	(574)	44,223
Property, plant and equipment	**1,570,926**	**95,974**	**-**	**(121,414)**	**(21,266)**	**1,524,220**
Investments	1,115	953	-	(534)	(207)	1,327
Investment securities	11,791	12,683	-	(11,036)	-	13,438
Other financial assets	585	94	-	(390)	(32)	257
Long-term financial assets	**13,491**	**13,730**	**-**	**(11,960)**	**(239)**	**15,022**

ACCUMULATED DEPRECIATION AND AMORTIZATION

As of September 30 (€ thousand)

	2002	Additions	Reclassi-fication	Disposals	Translation adjustment	2003
Goodwill	3,127	-	-	-	(19)	3,108
Other intangible assets	15,926	6,951	-	(10)	(132)	22,735
Intangible assets	**19,053**	**6,951**	**-**	**(10)**	**(151)**	**25,843**
Land	144	45	-	-	(19)	170
Buildings	70,963	5,236	-	(8,710)	(538)	66,951
Technical equipment, machinery and other equipment	762,687	144,793	-	(93,645)	(6,263)	807,572
Construction in progress	-	-	-	-	-	-
Property, plant and equipment	**833,794**	**150,074**	**-**	**(102,355)**	**(6,820)**	**874,693**
Investments	-	-	-	-	-	-
Investment securities	-	245	-	-	-	245
Other financial assets	-	-	-	-	-	-
Long-term financial assets	**-**	**245**	**-**	**-**	**-**	**245**

NET BOOK VALUE

As of September 30 (€ thousand)

	2003	2002
Goodwill	20,137	11,405
Other intangible assets	19,803	23,797
Intangible assets	**39,940**	**35,202**
Land	9,540	18,436
Buildings	80,181	86,548
Technical equipment, machinery and other equipment	515,583	569,526
Construction in progress	44,223	62,622
Property, plant and equipment	**649,527**	**737,132**
Investments	1,327	1,115
Investment securities	13,193	11,791
Other financial assets	257	585
Long-term financial assets	**14,777**	**13,491**

Long-term financial assets shown above are included in the consolidated balance sheets under other long-term assets.

The investment securities mainly consist of shares in funds. These securities are defined as available for sale securities under SFAS No. 115. The shares in funds do not have a specified time to maturity.

The unrealized gains/losses amount to as follows for the years ended September 30, 2003 and 2002:

UNREALIZED GAINS/LOSSES RESULTING FROM SECURITIES

As of September 30 (€ thousand)

	2003		2002	
	Gains	Losses	Gains	Losses
Available for sale securities	219	-	-	(207)

The realized gains/losses resulting from securities were €0.252 million, €0.695 million and €0.698 million for the years ended September 30, 2003, 2002 and 2001.

Depreciation expense on property, plant and equipment was €150.074 million, €165.372 million and €189.777 million for the years ended September 30, 2003, 2002 and 2001. For the years ended September 30, 2003, 2002 and 2001, depreciation includes an impairment charge for the Surface Acoustic Wave (SAW) business segment in the amount of €1.693 million, €8.600 million and €28.477 million respectively.

Interest expense capitalized on construction projects amounted to €1.629 million in fiscal 2003, €4.403 million in fiscal 2002 and €5.417 million in fiscal 2001 respectively.

Goodwill

On October 1, 2001, the Company adopted SFAS No. 142. This standard requires that amortization of goodwill ceases and that the carrying amount of goodwill be evaluated for recoverability, at least annually, or when circumstances indicate possible impairment. Accordingly, the Company has not recorded any goodwill amortization since fiscal 2002. Furthermore, the Company has performed its annual impairment test of goodwill and has concluded that there was no impairment in fiscal 2003 and 2002.

The carrying amount of goodwill as of September 30, 2003 and 2002, is as follows:

SEGMENTAL ANALYSIS OF GOODWILL

As of September 30 (€ thousand)

	2003	2002
Capacitors	1,880	1,922
Ceramic Components	4,111	4,154
SAW Components	309	364
Ferrites and Inductors	13,837	4,965
Total	**20,137**	**11,405**

With effect from October 1, 2002, the Company has modified its organizational structure in response to changing market conditions. The microwave ceramic filters and multilayer ceramic modules business lines were transferred from the ceramic components segment to the SAW segment. This change takes into account that modules are evolving more and more into complete solutions that integrate SAW filters as well. Inductors, which used to belong to the capacitors segment, are now combined with ferrites in the new ferrites and inductors segment, because the Company is processing a steadily rising share of its ferrite cores into inductive components in-house.

In the table above the goodwill as of September 30, 2002, has been restated according to the change in the composition of the Company's operating segments.

For additional information on the increase in goodwill refer to note 21.

Other Intangible Assets

Included in the other intangible assets as of September 30, 2003 and 2002, are the following categories of acquired other intangible assets:

OTHER INTANGIBLE ASSETS (FINITE LIVES)

As of September 30 (€ thousand)

	2003		2002	
	Gross	**Net**	**Gross**	**Net**
Patents, licenses and similar rights	**38,391**	**16,755**	35,566	20,248
Customer lists	**3,200**	**2,346**	3,200	2,667
Other	**947**	**702**	957	882
Other intangible assets (finite lives)	**42,538**	**19,803**	39,723	23,797

Amortization related to other intangible assets amounted to €6.951 million, €6.198 million and €3.158 million for fiscal 2003, 2002 and 2001. In accordance with SFAS No. 142, the Company reassessed the useful lives of all other intangible assets in fiscal 2003. There were no changes to such lives and there are no expected residual values associated with these intangible assets.

The development of the estimated fiscal year amortization expense is as follows:

ESTIMATED AMORTIZATION EXPENSE

Fiscal years (€ thousand)	
2004	6,822
2005	5,789
2006	2,382
2007	1,986
2008	1,007

The following table reconciles the reported fiscal 2001 net income to its respective pro forma amounts adjusted to exclude goodwill amortization, which is no longer recorded under SFAS No. 142.

RECONCILIATION OF REPORTED NET INCOME OF PRIOR PERIODS

Year ended September 30, 2001 (€ thousand)

	Amount	**Earnings per share (€) (basic and diluted)**
Net income	148,637	2.28
Add back goodwill amortization	965	0.01
Adjusted net income	149,602	2.29

7. Accrued Expenses and Other Current Liabilities

Accrued expenses and other current liabilities as of September 30, 2003 and 2002, are as follows:

ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES

As of September 30 (€ thousand)

	2003	2002
Accrued employee-related costs	71,267	77,105
Taxes payable	25,904	38,792
Salaries and payroll taxes payable	19,660	18,183
Loss on contracts	5,752	9,779
Royalty accruals	4,642	5,788
Accruals for warranties	4,267	7,243
Advanced payments received	2,075	6,067
Other	13,279	18,575
Total accrued expenses and other current liabilities	146,846	181,532

The current and non-current accruals for product warranties developed as follows:

PRODUCT WARRANTIES

(€ thousand)

	2003	2002
Product warranties, beginning of year	7,243	8,380
Product warranties issued during reporting period	1,742	1,977
Utilization of accruals	(4,301)	(3,385)
Change in estimates	(420)	332
Foreign exchange translation adjustment	3	(61)
Accrual as of end of period	4,267	7,243

8. Short-term Borrowings and Long-term Debt

Financing

The Company can call on a €300.000 million credit facility granted until May 2005, by a bank syndicate under the leadership of Commerzbank. The credit facility carries an interest rate ranging from EURIBOR or LIBOR plus 0.45%. This credit facility is bound to keep with special financial key data. Further members of the bank syndicate are Westdeutsche Landesbank, HSBC Trinkaus & Burkhardt, ABN Amro Bank, The Royal Bank of Scotland, Landesbank Baden-Württemberg, Deutsche Bank, Citibank, ING BHF, Bayerische Hypo-

und Vereinsbank and Barclays Bank. This credit facility was unused as of September 30, 2003. In addition, the Company has entered into a number of bilateral borrowing arrangements by international and national banks totaling €230.350 million. These borrowing arrangements were used in amount of €43.210 million as of September 30, 2003. In addition, the Company has loans from state aid to exports and investing activities that are not included in the borrowing arrangements already mentioned.

Short-term Borrowings

Short-term borrowings as of September 30, 2003 and 2002, were €96.728 million and €126.364 million respectively. These short-term borrowings as of September 30, 2003 consisted of unsecured bank loans and export financing in amount of €58.138 million. The export financing bears an interest rate of 1.75%. Other short-term borrowings consist of various working capital bank loans with a weighted average interest rate of 4.01% in fiscal 2003 and 4.67% in fiscal 2002.

Long-term Debt

Long-term debt consists of the following:

LONG-TERM DEBT

As of September 30 (€ thousand)

	2003	2002
Debentures	125,287	4,522
Long-term debt with third parties	105,340	78,317
Total long-term debt	230,627	82,839
Less current installments	(15,624)	(17,332)
Long-term debt excluding current installments	215,003	65,507

Details of currencies, interest rates, maturities and lenders of the long-term debt are given in the following table:

LONG-TERM DEBT (LOANS AND DEBENTURES)

As of September 30, 2003 (Currencies in millions)

Principal	Euro equivalent	Interest rate	Maturity	Lender
EUR 123.9	123.9	2.5%	2010	Convertible Bond
EUR 40.0	40.0	4.2375%	2005-2009	KfW
EUR 43.0	43.0	1.2% - 5.0%	2003-2010	Austrian banking syndicate and government institutions
INR 392.0 INR 26.5 INR 50.0	8.7	6.9% - 13.5%	2003-2005	Citibank, ABN Amro Bank, Deutsche Bank
EUR 14.3	14.3	0%	2004-2007	Banco Portugal do Atlantico

In addition there were obligations under capital lease of €0.705 million and €0.703 million as of September 30, 2003 and 2002 respectively.

On July 16, 2003 the Company (as guarantor) through its subsidiary EPCOS Finance B.V. (as issuer), issued a convertible bond due 2010 with a nominal amount of €126.425 million at an interest rate of 2.5%. At September 30, 2003, deferred debt issuance costs were €2.570 million. The bond is convertible, at the option of the holders of the notes, into a maximum of 6,500,000 ordinary shares of the Company, at a conversion price of €19.45 per share. Upon conversion, the Company may pay a cash amount in lieu of delivery of all or a part of the shares. The bond is unsecured and pari passu with all present and future unsecured subordinated obligations of the issuer. The conversion right may be exercised by the bondholder during the period commencing on September 1, 2003 and ending on July 1, 2010. The bondholders have an early redemption option in the event of a change of control as defined. The bondholder may demand from the issuer redemption of any or all of its bonds at the principal amount plus interest accrued thereon. Beginning July 17, 2008, the Company may redeem the convertible bond at the principal amount plus interest accrued thereon if the Company's share price exceeds 150% of the conversion price on ten trading days during a period of 20 days. If the aggregate principal amount of bonds outstanding falls below €20.000 million the Company may redeem the remaining parts of the convertible bond.

On April 1, 2003 EPCOS AG entered into a loan of €40.000 million with KfW, carrying an interest rate of 4.2375%. The loan matures on September 30, 2009 and will be repaid from March 31, 2005, in equal semi-annual instalments.

At September 30, 2003, long-term debt with third parties includes €43.033 million held by the Company's Austrian subsidiary EPCOS OHG. An amount of €7.389 million of this debt is secured by investment securities and €36.680 million by liens on land. The weighted average interest rate of all the Austrian long-term third-party debt as of September 30, 2003 and 2002, was 2.32% and 2.39% respectively. The loans are due in instalments over seven years.

The Indian subsidiary EPCOS Ferrites Ltd. (EFL) has four unsecured loans in the amount of Indian rupees (INR) 392.000 million (€7.335 million), bearing interest ranging from 6.90% to 8.65%. EFL also issued a debenture for INR 26.500 million (€0.496 million). The Indian subsidiary EPCOS India Private Ltd. has issued a debenture in the nominal amount of INR 50.000 million (€0.936 million).

As of September 30, 2003, long-term debt with third parties also includes €14.267 million in non-interest-bearing loans guaranteed by the government of Portugal.

The credit lines of group subsidiaries are partly secured by letters of support or guarantee provided by EPCOS AG.

The aggregate amounts of long-term debt maturities as of September 30, 2003, are, in repayment date order, as follows:

LONG-TERM DEBT MATURITIES

As of September 30, 2003 (€ thousand)

Fiscal year due	
2004	15,624
2005	25,121
2006	22,226
2007	18,461
2008	12,989
Thereafter	136,206

9. Related Party Transactions

Total sales to Siemens for both internal usage and resale were 17.3%, 17.3% and 22.7% of total consolidated net sales for the years ended September 30, 2003, 2002 and 2001 respectively. Resales by Siemens to third parties accounted for 2.8%, 2.9% and 8.0% of total consolidated net sales for the years ended September 30, 2003, 2002 and 2001 respectively, whereas sales directly to Siemens for internal usage accounted for 14.5%, 14.4% and 14.7% of total consolidated net sales respectively.

With regard to sales of EPCOS products to the end customers via Siemens in countries without its own sales organization, the Company has several agency or distributorship agreements with Siemens. In the process of building up own subsidiaries serving as sales operations, the Company has terminated agency or distributorship agreements with some Siemens sales companies.

The Siemens sales companies receive a monthly turnover-based sales commission. Sales promotion measures of the Siemens sales companies have to comply with the requirements of the Company.

The Company and its subsidiaries make use of various services provided by Siemens. These agreements are either for fixed terms or can be terminated within one to three years. Under these agreements, Siemens provides the Company with a range of personnel and administrative services. Siemens thus administers some of the Company's pension plans, part of the payroll accounting and data processing systems. Siemens also provides the Company with library and information services, personnel training and educational programs, as well as specific purchasing, procurement, sourcing and transportation services.

The Company also purchases IT services from Siemens. In fiscal 2003 Siemens performed IT services for the Company, which consisted primarily of the following: operating, servicing and development of IT systems and programs, network and telecommunications services. This business relationship between Siemens and EPCOS is based on general and specific agreements.

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 twelve months' prior notice from September 30, 2004, at the earliest. The annual rent in fiscal 2003 was €1.373 million. 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 Arresters Division, Berlin, holds a lease from Siemens for production facilities and office buildings. The contract can be terminated to the end of a calendar quarter with twelve months' prior notice. The annual rent was €0.440 million in fiscal 2003. The Ceramic Components segment entered into an agreement with Siemens to lease a production building in Austria effective October 1, 1999. For further details see Note 19.

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 project-by-project basis. The agreement grants the Company all patents and rights issuing from such research and development projects. Siemens has the nonexclusive, worldwide and royalty-free right to use these patents and rights for its own business purposes.

Effective January 1, 2001, the Company acquired from Siemens the operating activity for the development of specialized applications of radio-frequency surface acoustic wave technology. The acquisition price was €5.000 million and is mainly recorded as intangible assets.

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 nonexclusive, nontransferable 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 an agreement on technical cooperation with Matsushita Electronic Components Co., Ltd. ("MACO"). This agreement is the basis for a project-by-project exchange of technical know-how, advice, and shared development work. All costs are to be borne by the party which incurs them, unless a contrary written agreement exists. To cover MACO's costs, the Company pays an annual fee. Insofar as MACO and the Company enter into specific technical cooperation and technical projects on the basis of this agreement, the Company has to pay a one-time license fee or an annual fee based on sales of the related product. It is possible to combine these alternatives.

On the basis of the aforementioned agreement, the Company and MACO have entered into a license agreement effective April 5, 2000, for the use of know-how pertaining to tantalum capacitors, and a license agreement effective September 1, 2001, for the use of know-how pertaining to ultracapacitors. Both agreements grant the Company certain nonexclusive and nontransferable licenses for the use of the respective know-how. Additionally, MACO advises the Company in each case on technical matters concerning the use of this know-how. In consideration of the rights and licenses granted to the Company, the Company agreed to initial payments. 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 July 25, 2001, the Company entered into a know-how license agreement with MACO, granting the Company a nonexclusive, nontransferable license to use know-how relating to the production of multilayer ceramic capacitors.

Further, the Company and MACO have entered into a certain SAW know-how cross-license agreement and an agreement on the development on a certain SAW device based on the technical cooperation agreement as mentioned above. Said cross-license agreement has been in force since January 1, 2002, and grants the Company and MACO certain nonexclusive and nontransferable licenses for reciprocal use of know-how. Additionally, the Company and MACO advise each other on technical matters concerning the use of this know-how. The mutual granted licenses are not royalty-bearing. Said development agreement has been entered into as of June 1, 2002, and grants the Company and MACO certain non-exclusive and non-transferable licenses for use of the development results achieved by the other party within the framework of the joint development. The Company and MACO make no payments to each other for the development work and the granted licenses.

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 nonexclusive, nontransferable, 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.

EPCOS (Xiaogan) Co., Ltd. in China, which is included in the consolidated financial statements from October, 1, 2000, has rented office and production space from the minority shareholder Hanguang Electron Device Factory for an annual rental of €0.123 million. It also purchased materials and services from this company for €0.798 million in fiscal 2003 and €1.350 million in fiscal 2002.

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

TRANSACTIONS WITH RELATED PARTIES

Year ended September 30 (€ thousand)

	2003	2002	2001
Net sales to			
Siemens (including resales to third parties)	**220,032**	226,384	433,144
Matsushita and others	**8,121**	9,843	12,924
	228,153	236,227	446,068
Purchases of inventories and services charged to cost of goods sold			
Siemens	**(23,266)**	(47,079)	(89,889)
Matsushita and others	**(3,584)**	(11,741)	(22,365)
	(26,850)	(58,819)	(112,254)
Research and development expenses			
Siemens	**(1,887)**	(6,015)	(6,042)
Matsushita and others	**(19)**	(6)	(6,088)
	(1,906)	(6,021)	(12,130)
Marketing, selling, general and administrative expenses			
Siemens	**(8,293)**	(7,534)	(8,893)
Matsushita and others	**(114)**	(5)	(709)
	(8,407)	(7,539)	(9,602)
Interest expense			
Siemens	**(58)**	(132)	(97)

Additionally the Company paid sales commissions to Siemens sales companies in the amount of €11.856 million for fiscal 2003, €18.893 million for fiscal 2002 and €18.603 million for fiscal 2001.

The Company received a payment in the amount of €2.463 million during fiscal 2002 from Siemens. This payment, which is recorded as other income in fiscal 2002, represents the final organizational separation payment from Siemens in relation to EPCOS Inc. in the USA.

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 (€ thousand)

	2003	2002
Siemens		
Trade accounts receivable	**44,767**	44,620
Trade accounts payable	**(9,906)**	(11,553)
Long-term capital lease obligations	**(506)**	(360)
Matsushita and others		
Trade accounts receivable	**867**	1,098
Trade accounts payable	**(1,252)**	(1,486)

10. Shareholders' Equity

In preparation for the initial public offering on October 15, 1999, the Company was converted from the predecessor company in the legal form of a limited liability company ("GmbH") into a stock corporation on September 2, 1999, with a share capital of €62.000 million 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 €3.300 million 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 €3.429 million – of €97.823 million. The proceeds exceeded the capital increase by €94.523 million, which was recorded as an increase in additional paid-in capital. At September 30, 2003, the Company had share capital amounting to €65.300 million divided into 65,300,000 registered shares of no par value with a notional 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 up to €13.020 million altogether (authorized capital). This authorized capital can be utilized to issue ordinary shares of up to €12.400 million for contributions in cash (authorized capital I), to issue ordinary shares of up to €3.100 million to employees (authorized capital II) and to issue ordinary shares of up to €12.400 million for contributions in kind (authorized capital III).

The Company declared and paid cash dividends to its shareholders of €65.273 million in the year ended September 30, 2001. No cash dividends were declared and paid in the years ended September 30, 2003 and 2002.

Under the German Stock Corporation Act, the amount of income 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 HGB. Accordingly, the Annual General Meeting decides only on the dividends payable from the retained earnings (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, 2002, the distributable amount was negative (minus €32.465 million). As of September 30, 2003, this amount was €6.234 million.

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 2003, the Company neither purchased shares nor reissued shares to its employees. As of September 30, 2003, the Company still holds 25,000 shares (see Note 11).

The Company has conditional capital of up to €2.480 million (Conditional Share Capital 1999/I) that may be used for a stock option plan. Additionally, the Company has conditional capital of €6.500 million (Conditional Share Capital 2002/I) for the exercise of conversion privileges and option rights for convertible bonds and warrant-linked bonds.

11. Stock-based Compensation

Stock Option Plan

Effective October 13, 1999, an 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 nontransferable options to purchase up to 2,480,000 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 Company's initial public offering, the exercise price is 115% of the subscription price of €31 per share. The Supervisory Board of the Company decides annually on the number of options to be granted to the Management Board. In turn, the Management Board and the governing bodies of the group companies 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 €2.480 million was created for the issuance of up to 2,480,000 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 summarizes stock option activity:

STOCK OPTION ACTIVITY

	Number of options	Weighted average exercise price per share (in €)
Balance as of September 30, 2000	**158,000**	**35.65**
Granted	454,500	103.17
Exercised	-	-
Forfeited	-	-
Balance as of September 30, 2001	**612,500**	**85.75**
Granted	463,500	64.11
Exercised	-	-
Forfeited	6,250	68.96
Balance as of September 30, 2002	**1,069,750**	**76.47**
Granted	698,500	15.23
Exercised	-	-
Forfeited	30,500	66.51
Balance as of September 30, 2003	**1,737,750**	**52.03**

The following table summarizes all stock options issued by the Company and exercisable as of September 30, 2003:

OPTIONS OUTSTANDING AND EXERCISABLE

As of September 30, 2003

Range of exercise prices (in €)	Granted options	Forfeited options	Remaining granted options	Options outstanding weighted average remaining contractual life (in years)
15.23	698,500	-6,000	692,500	6
35.65	158,000	-4,750	153,250	3
64.11	463,500	-13,000	450,500	5
90.90 - 105.04	454,500	-13,000	441,500	4
15.23 - 105.04	**1,774,500**	**-36,750**	**1,737,750**	**5**

Weighted average exercise price per granted option (in €)	Weighted average exercise price per forfeited option (in €)	Weighted average exercise price per remaining granted option (in €)	Options exercisable	
			Number	Weighted average exercise price (in €)
15.23	15.23	15.23	-	-
35.65	35.65	35.65	153,250	35.65
64.11	64.11	64.11	-	-
103.17	105.04	103.12	441,500	103.12
52.34	**66.93**	**52.03**	**594,750**	**85.73**

The Company has adopted the disclosure provisions of SFAS No. 123 *Accounting for Stock-Based Compensation* and SFAS No. 148 *Accounting for Stock-Based Compensation – Transition and Disclosure*, but continues to measure stock-based compensation cost and shows personnel costs from the granting of options in accordance with APB No. 25 and its related interpretations. These personnel costs were nil in fiscal years ended September 30, 2003, 2002 and 2001.

After 158,000 options had been granted at a weighted average fair value of €21.25 per option on October 14, 1999, another 454,500 options were granted in fiscal 2001 in two tranches on November 29, 2000, and February 22, 2001. The weighted average fair value for the first tranche was €40.41 and for the second tranche €31.26 per option, measured at the respective grant date. For the entire options granted in fiscal 2001, the weighted average fair value amounted to €39.20 per option. On November 27, 2001, another 463,500 options were granted at a weighted average fair value of €25.45 per option. On November 21, 2002, additional 698,500 options were granted. The weighted average fair value amounted to €6.87 per option.

All forfeited options concern employees who left the Company.

The fair value of the Company's stock options of fiscal 2003, 2002 and 2001 used to compute pro forma net income (loss) disclosures was estimated on the date of grant using the Black-Scholes option pricing model based on the following weighted-average assumptions for fiscal 2003, 2002 and 2001:

AVERAGE VALUES OF STOCK OPTIONS

Year ended September 30

	2003	2002	2001
Risk-free interest rate	4.03%	4.37%	5.34%
Expected life of options (in years)	5	5	5
Expected volatility	50%	50%	50%
Average expected dividend per share (in €)	-	-	0.50

Employee Share Purchase Plan

In fiscals 2000 through 2002, EPCOS AG adopted yearly employee share purchase plans under which employees depending on their function could purchase a number of shares determined annually at a certain discount. During fiscal 2002, the Company purchased 25,000 of its common shares in preparation for such an offer to its employees in fiscal 2003, but in October 2002, the Management Board decided not to offer an employee share purchase plan so that no shares were sold to employees in fiscal 2003. In accordance with German law, the Company will either sell these shares in the market or use them for any employee share purchase plan the Company may offer in the future. There was no compensation expense recorded under the plan in fiscal 2003, while it amounted to €0.313 million in fiscal 2002 and €0.691 million in fiscal 2001 respectively.

12. Restructuring

Due to the considerable changes in market conditions for passive electronic components since fiscal 2001, it was necessary for the Company to undertake restructuring measures to reduce the workforce, dispose of certain equipment and speed up relocation of manufacturing operations to countries with lower labor costs. On the basis of various restructuring plans in fiscal 2003 worldwide measures were taken, leading to personnel costs in the amount of €13.848 million:

RESTRUCTURING COSTS, NET

Year ended September 30 (€ thousand)

	2003	2002	2001
Personnel costs, net	13,848	18,384	34,417
Impairment of property, plant and equipment (see Note 6)	-	8,648	28,477
Total restructuring costs	13,848	27,032	62,894

Net restructuring costs of €13.848 million for fiscal 2003 included fourth-quarter restructuring costs of €15.100 million. This was partly offset by €1.252 million which results from a change in estimate of fiscal year 2002.

According to the new organizational structure of the segments, the split of restructuring costs by segment was as follows:

SEGMENTAL ANALYSIS OF RESTRUCTURING COSTS, NET

Year ended September 30 (€ thousand)

	2003	2002	2001
Capacitors	2,921	4,170	14,868
Ceramic Components	312	2,694	2,133
SAW Components	6,461	12,486	32,761
Ferrites and Inductors	3,826	7,268	13,132
Other	328	414	-
Total restructuring costs	13,848	27,032	62,894

These restructuring costs mainly impact cost of sales. Personnel restructuring costs primarily relate to reduction of blue-collar jobs.

The development of accruals and liabilities for personnel restructuring costs during fiscal 2003 and 2002 is as follows:

DEVELOPMENT OF ACCRUALS AND LIABILITIES

	Number of employees	Accruals and liabilities (€ thousand)
As of September 30, 2001	**1,160**	**35,084**
Increase in accruals/liabilities, net	503	18,384
Usage	(806)	(18,311)
As of September 30, 2002	**857**	**35,157**
Increase in accruals/liabilities, net	521	13,848
Usage	(539)	(18,167)
As of September 30, 2003	**839**	**30,838**

13. Other Income, Net

Net other income of €4.359 million mainly consists of a compensation paid by a third party to an American subsidiary for the termination of a contract in amount of €2.619 million, a profit on a settlement of VAT liabilities in amount of €1.074 million of an Indian subsidiary, and export compensation in amount of €0.602 million. The net other income of €10.072 million in fiscal 2002 mainly consists of government grants from the Portuguese Government of €5.237 million and from the Government of Singapore of €1.169 million respectively, and a one-time payment of €2.463 million for the complete organizational separation of the American subsidiary from Siemens in the USA.

14. Income Taxes

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

INCOME (LOSS) BEFORE INCOME TAXES

Year ended September 30 (€ thousand)

	2003	2002	2001
Germany	**(32,957)**	(81,435)	(3,316)
Foreign	**29,665**	2,897	209,049
	(3,292)	(78,538)	205,733

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

PROVISION (BENEFIT) FOR INCOME TAXES

Year ended September 30 (€ thousand)

	2003	2002	2001
Current taxes			
Germany	**1,683**	457	258
Foreign	**6,163**	3,590	52,561
Deferred taxes			
Germany	**(12,259)**	(27,981)	3,728
Foreign	**(5,781)**	(16,120)	(605)
	(10,194)	(40,054)	55,942

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 of €42.718 million, €39.796 million, and €27.803 million for the years ended September 30, 2003, 2002 and 2001 respectively, relating to this production facility, and the statutory tax rate of 22% for 2003 and 2002, and 24.5% for 2001 in Singapore, the effect of the tax holiday for the years ended September 30, 2003, 2002 and 2001 on net income amounts to €9.398 million, €8.755 million and €6.812 million respectively, and the effect on basic net income per share is €0.14, €0.13 and €0.10 respectively.

Reconciliation of income taxes for the years ended September 30, 2003, 2002 and 2001 based on the German corporate tax rate plus the after federal tax benefit rate for trade taxes for a consolidated statutory rate of 41% for fiscal 2003, 40% for fiscal 2002 and 52% for fiscal 2001 respectively results in the following figures:

RECONCILIATION OF INCOME TAXES

Year ended September 30 (€ thousand)

	2003	2002	2001
Expected provision (benefit) for income taxes	(1,350)	(31,415)	106,981
Foreign tax rate differential	(21,234)	(13,780)	(55,999)
Change in valuation allowance	9,456	4,367	(636)
Change in deferred taxes resulting from a change in German tax rate	179	109	(551)
Non-deductible expenses Germany	1,881	1,418	294
Foreign withholding tax	527	288	508
Tax expense prior years Germany	491	340	(446)
Trade tax differential Germany	(273)	(245)	(183)
Other	129	(1,136)	5,974
Actual provision (benefit) for income taxes	(10,194)	(40,054)	55,942

The German tax reform which was enacted in October 2000 has, in addition to other changes, reduced the corporation tax rate to a uniform 25% and abolished the imputation system. This reduction in corporation tax rates first took effect for the German group companies in the year ended September 30, 2002. The solidarity surcharge of 5.5% was calculated on the 25% federal corporate tax, so that the total federal corporate tax rate amounted to 26.4%. The effective rate for trade tax was 13.6% for fiscal 2002.

In September 2002, the German government enacted new tax legislation which has temporarily raised the statutory corporate income tax rate to 26.5% (plus a solidarity surcharge of 5.5%) for only 2002/2003, in order to aid the victims of the flood in Germany. At September 30, 2002, those deferred tax assets and liabilities of German companies which were expected to be realized or settled within the next year (2003) were therefore calculated with a combined income tax rate of 41% (including 13% trade tax rate). Deferred taxes of German companies as of September 30, 2003, have now been calculated with the combined income tax rate of 40% due to the October 2000 tax reform.

With regard to the taxation of the income of companies with noncalendar fiscal years – such as EPCOS AG – and their shareholders, the German corporate tax law applied a split-rate imputation system in fiscal 2001. In accordance with the tax law in effect for fiscal 2001, retained corporate income was subject to a federal corporate tax rate of 40% for 2001 plus a solidarity surcharge of 5.5% on federal corporate taxes payable. Including the impact of the surcharge, the federal corporate tax rate amounted to 42.2% for 2001. The effective rate for trade tax was 10.26% for 2001. On distribution of retained earnings to shareholders, the corporate income tax rate on such distributed earnings was reduced to 30% plus a solidarity surcharge of 5.5%, resulting in a total tax rate of 31.65% in 2001.

In October 2003, the Lower House of German parliament (Bundestag) passed a new tax legislation. This tax legislation needs to be accepted by the Upper House of German parliament (Bundesrat). A realization of the proposed changes would have effects, amongst others, for net operating loss utilization. However, at the date of this report, German legislators have not finalized their deliberations. Therefore it is not possible to determine the impact of any new tax legislation.

Deferred income tax assets and liabilities as of September 30, 2003 and 2002, are summarized as follows:

DEFERRED INCOME TAX ASSETS AND LIABILITIES

As of September 30 (€ thousand)

	2003	**2002**
Inventories	**4,481**	8,192
Property, plant and equipment	**8,194**	10,008
Net operating loss and tax credit carryforwards	**79,835**	78,480
Accrued expenses	**12,291**	14,012
Pension liabilities	**48,000**	6,487
Other liabilities	**1,848**	1,320
Other	**3,243**	1,123
Gross deferred tax assets	**157,892**	119,622
Deferred tax asset valuation allowance	**(13,904)**	(4,448)
Net deferred tax assets	**143,988**	115,174
Receivable provisions	**(3,547)**	(2,800)
Inventories	**(980)**	(810)
Property, plant and equipment	**(53,282)**	(45,788)
Accrued expenses	**(11,587)**	(10,255)
Other	**(10,546)**	(10,776)
Gross deferred tax liabilities	**(79,942)**	(70,429)
Deferred tax assets, net	**64,046**	44,745

Deferred income taxes with respect to inventories relate to differences between US costing methods and valuation allowances used for book and tax purposes, and intercompany profits in inventories, which were eliminated in the consolidated financial statements. The net operating loss carryforwards relate mainly to the German and Austrian operations. EPCOS AG has changed the method of the Company's pension scheme in fiscal year 2003. Liabilities were transferred to and payments will be made by a so-called relief fund named EPCOS AG (UK EPCOS) e.V. A taxable income of €95.588 million has been generated from the conversion at EPCOS AG, because indirect pension obligations can not be considered for tax purposes. A temporary difference has thus arisen between the book value and the tax basis, which has led to a deferred tax asset of €38.235 million.

Net deferred tax assets and liabilities are recorded in the consolidated balance sheets as of September 30, 2003 and 2002, as follows:

DEFERRED INCOME TAX ASSETS AND LIABILITIES IN CONSOLIDATED BALANCE SHEETS

As of September 30 (€ thousand)

	2003	2002
Deferred tax assets		
Current	7,523	9,719
Non-current	83,022	56,407
Deferred tax liabilities		
Current	(12,236)	(9,336)
Non-current	(14,263)	(12,045)
	64,046	44,745

As of September 30, 2003, the Company had consolidated net operating loss (NOL) carryforwards amounting to €209.780 million, of which €19.290 million expire by 2008 and €190.490 million expire later than 2008 or have no expiry date. These figures show the gross amount of the available NOLs. In addition, the subsidiary in Spain has a tax credit amount of €2.394 million at its disposal which will expire in 15 years. The Company's valuation allowances increased from 2002 to 2003 by €9.456 million and from 2001 to 2002 by €4.367 million, but decreased from 2000 to 2001 by €0.636 million. The 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, 2002 and 2001, because these earnings were intended to be indefinitely reinvested in those operations. In fiscal year 2003, the Company has provided income taxes of €2.016 million on retained earnings of foreign subsidiaries. Income taxes on the remaining cumulative earnings of €83.770 million of foreign subsidiaries have not been provided, because such earnings are intended to be indefinitely reinvested in those operations. It is not economically practicable to estimate the amount of unrecognized deferred tax liabilities for these undistributed earnings.

15. Earnings per Share

The following table sets forth the computation of basic and diluted earnings (loss) per share for the years ended September 30, 2003, 2002 and 2001:

EARNINGS (LOSS) PER SHARE

Year ended September 30	2003	2002	2001
Net income (loss) (€ thousand)	**6,744**	(38,500)	148,637
Denominator for basic earnings per share – weighted average shares	**65,275,000**	65,288,838	65,289,526
Effect of dilutive shares - stock options	**0**	0	80,007
Denominator for diluted earnings per share – weighted average shares adjusted for dilutive shares	**65,275,000**	65,288,838	65,369,533
Basic and diluted earnings (loss) per common share (in €)	**0.10**	(0.59)	2.28

For fiscal year 2003, 6,500,000 shares resulting from the convertible bonds were not considered, because the inclusion would be antidilutive.

For the year ended September 30, 2002, 18,059 potentially dilutive shares were not added to the denominator, because inclusion of such shares would have been antidilutive.

16. Pensions

The Company provides pension benefits principally under several defined-benefit pension plans. Virtually all of the Company's salaried employees in Germany are covered by two defined-benefit pension plans. The Company's employees in Brazil are covered by two funded defined-benefit pension plans. Both US subsidiaries, EPCOS Inc., Iselin, New Jersey, and Crystal Technology, Inc., Palo Alto, California, were part of a multi-employer plan with Siemens Corporation, New York, until fiscal 2001. Since fiscal 2002, these subsidiaries provide pension benefits to their employees under a funded defined-benefit plan. The respective portion of obligations and plan assets were transferred to EPCOS Inc. by Siemens Corporation.

Taking effect fiscal 2002, the Company started a pension deferred compensation plan for German employees, which gives these employees the opportunity to convert part of their compensation to a pension based on amounts contributed including the interest earned thereon at retirement age. The provision for future payments to retired staff is determined by an actuary. Payments into the Austrian subsidiary's defined contribution plan amounted to €0.651 million in fiscal 2003, €0.717 million in fiscal 2002 and €0.963 million in fiscal 2001.

In fiscal year 2003 the Company transferred its accumulated benefit obligation relating to the vested and non-vested portions of its defined benefit pension plan in Spain to an external pension fund for a payment of €0.632 million. This amount was paid at due date. 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 contribution to the pension fund amounted to €0.006 million in fiscal 2003.

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

Year ended September 30 (€ thousand)

	2003	2002	2001
Projected benefit obligations ("PBO") at beginning of year	142,797	116,420	100,499
Introduction of a pension plan in USA	-	16,579	-
Service cost	4,910	5,683	3,349
Interest cost	8,478	8,264	6,431
Actuarial losses	3,836	2,958	9,322
Foreign exchange rate changes	(2,706)	(2,850)	(1,386)
Benefits paid	(5,905)	(4,410)	(4,177)
Prior service cost	-	-	371
Business combinations	-	244	2,011
Curtailments	(120)	-	-
Settlements	(715)	(91)	-
Projected benefit obligations ("PBO") at end of year	150,575	142,797	116,420

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

CHANGES IN PLAN ASSETS

Year ended September 30 (€ thousand)

	2003	2002	2001
Fair value of plan assets at beginning of year	16,320	2,203	3,471
Introduction of a pension plan in USA	-	15,276	-
Actual return on plan assets	409	(399)	26
Foreign exchange rate changes	(2,169)	(1,946)	(1,134)
Employer contributions	1,536	2,063	118
Benefits paid	(745)	(877)	(206)
Business combinations	-	-	(72)
Fair value of plan assets at end of year	15,351	16,320	2,203

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 (€ thousand)

	2003	2002
Funded status of plans *)	(135,224)	(126,477)
Unrecognized prior service cost	883	1,149
Unrecognized actuarial net losses	16,475	12,072
Unrecognized net obligation on transition to SFAS No. 87	-	888
Intangible assets	(686)	-
Additional minimum liability	(5,039)	-
Net amount reported in the consolidated balance sheets	(123,591)	(112,368)
Less current portion	5,154	5,018
Long-term portion of pension liability	(118,437)	(107,350)

*) 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 30, 2003, 2002 and 2001:

NET PENSION COST

Year ended September 30 (€ thousand)

	2003	2002	2001
Service cost	4,910	5,683	3,349
Interest cost	8,478	8,264	6,431
Expected return on plan assets	(1,153)	(1,316)	(359)
Amortization of unrecognized obligation	888	888	896
Amortization of unrecognized actuarial gains or losses	-	-	(13)
Unrecognized prior service cost	82	116	36
Net periodic pension cost	13,205	13,635	10,340

Assumed discount rates and rates of increase in compensation used in calculating the PBO 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 5.5% for the discount rate in fiscal 2003, 5.75% in fiscal 2002 and 6.0% in fiscal 2001. The compensation increases were assumed to be 2.75% in fiscal 2003 and 3.0% in both 2002 and 2001. The expected return on plan assets for the funded pension plan transferred to EPCOS Inc. in fiscal 2003 was 7.0% as was the case in the previous year.

17. Supplemental Cash Flow Information

Cash payments for income taxes, dividends and interest for the years ended September 30, 2003, 2002 and 2001, were as follows:

PAYMENTS FOR INCOME TAXES, DIVIDENDS AND INTEREST, AND NON-CASH TRANSACTIONS

Year ended September 30 (€ thousand)

	2003	2002	2001
Payments for			
Income taxes	35,589	38,874	31,232
Interest net of amounts capitalized	10,249	6,571	11,193
Dividends	-	-	65,273
Non-cash transactions			
Acquisition of equipment under capital lease	585	264	956

18. 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 or other current assets. The change in market value of instruments other than hedges which are designated as cash flow hedges, is included in currency gains or losses within the consolidated statements of operations. The Management Board believes that the credit risk in these transactions is minimal, and is involved on a daily basis in risk management decisions, operating under rules adopted by the Supervisory Board. The inherent risks are monitored using a value at risk model.

Commodity Contracts

The Company shows gains or losses due to commodity contracts which are designated as cash flow hedges to hedge anticipated future cash flows in other comprehensive income/loss. These hedging contracts are commodity contracts to hedge price fluctuations for palladium over a period of one to nine months.

The gains or losses are reclassified to the statements of operations, as soon as the underlying transactions materialize, while the ineffective portion of these hedging contracts is recorded directly in the statements of operations. The statement of operations as of the fiscal year ending on September 30, 2003, was not influenced by reclassification from other comprehensive income/loss. The statements of operations were also not affected by any changes in the market values due to the ineffective potion of the hedges.

Interest Rate and Cross-currency Swaps

For hedging of currency and interest rate risks, the Company entered in cross-currency and interest rate swaps with a notional amount of €26.000 million. The swaps have several maturities up to May 30, 2008.

These swaps are marked to market and included in other current liabilities or assets.

Fair Value of Financial Instruments

The carrying amounts of the Company's significant financial instruments as of September 30, 2003 and 2002, are summarised here. The carrying values of the Company's cash and cash equivalents, trade accounts receivable and payable, short-term borrowings and accrued expenses and other current liabilities approximate their fair market values as of September 30, 2003 and 2002, 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 realised or would be paid in a current market transaction. 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 (€ thousand)

	2003			2002		
	Notional amount	Carrying amount	Fair value	Notional amount	Carrying amount	Fair value
Convertible bonds	-	123,855	141,027	-	-	-
Fixed rate long-term debt	-	98,677	95,768	-	74,447	66,884
Forward exchange contracts	210,619	(252)	(252)	122,988	4,119	4,119
Cross-currency and Interest rate swaps	26,000	(424)	(424)	3,987	(92)	(92)
Commodity contracts	8,313	1,334	1,334	-	-	-

Concentrations of Risk

The Company has business relationships with numerous customers and affiliates around the world. Apart from Siemens (see Note 9), the Company has another major customer, representing 9.8% (€124.414 million) of total net sales in fiscal 2003, 14.0% (€183.653 million) in fiscal 2002 and 13.2% (€251.956 million) in fiscal 2001 respectively. Although the Company has a large volume of receivables from a limited number of customers, 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 raw materials and supplies from single sources on grounds of technology, availability, price, quality and other criteria. 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.

19. Commitments and Contingencies

(a) Leases

The Company currently leases manufacturing, executive and administrative facilities, and various types of equipment under operating lease agreements. In addition, the Company has entered into capital lease agreements for certain office equipment that expire during the next four years. Many lease agreements include renewal or purchase options. In most cases, management expects that in the normal course of business, lease agreements will be renewed or replaced by other agreements. Rental expense for all operating lease agreements charged against earnings amounted to €24.443 million, €29.363 million and €27.945 million for the years ended September 30, 2003, 2002 and 2001 respectively. These amounts include lease payments to Siemens of €5.325 million, €6.692 million and €4.913 million for the three years respectively. No contingent lease agreements exist.

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

CAPITAL LEASE ASSETS

As of September 30 (€ thousand)

	2003	2002
Technical equipment, machinery and other equipment	1,793	1,459
Less accumulated depreciation	(685)	(541)
Net assets under capital lease	1,108	918

Depreciation of assets held under capital lease agreements is included within depreciation and amortization expense.

The following is a summary of future minimum lease payments under capital and operating lease agreements that had initial or remaining periods of notice of more than one year:

FUTURE MINIMUM LEASE PAYMENTS

As of September 30, 2003 (€ thousand)

	Capital lease	Operating lease
2004	506	16,133
2005	287	12,996
2006	146	9,969
2007	9	9,887
2008	-	6,140
Thereafter	-	18,589
Total minimum lease payment	948	73,714
Less amount representing interest	(243)	
Present value of net minimum capital lease payments	705	
Less current portion of obligations under capital lease	(300)	
Obligations under capital lease, excluding current portion	405	

Effective October 1, 1999, the Ceramic Components Division entered into a lease with Siemens for a facility in Austria. Annual lease payments for the ten-year term of the contract amount to €1.298 million. The Company's Austrian subsidiary also has an operating lease agreement for a factory building with annual lease payments of €2.411 million and €2.251 million in fiscal 2003 and fiscal 2002 respectively. The contract cannot be terminated during its 15-year term. The resulting commitments are included in the above table.

(b) Other Commitments and Contingencies

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 may also 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 to date, 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 answer 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.

20. 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 and Inductors.

With effect from October 1, 2002, EPCOS modified its organizational structure in response to changing market conditions. Microwave ceramic filters and multilayer ceramic modules were transferred from the Ceramic Components segment to the Surface Acoustic Wave (SAW) Components segment. This change takes into account that modules are evolving more and more into complete solutions that integrate SAW filters as well. Inductors, which used to belong to the Capacitors segment, have now been combined with ferrites in the new Ferrites and Inductors segment because a steadily rising share of ferrite cores are processed into inductive components by EPCOS. These new structures also affect financial reporting by EPCOS. Accordingly, the segment information for prior years has been restated to conform to the current operating structure.

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 Ceramic Components segment, using advanced ceramic technologies, produces thermistors, varistors and multilayer ceramic capacitors. This segment also includes gas-filled surge voltage arresters, which share many of the same protective 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. This segment also includes business with microwave ceramic filters and multilayer ceramic modules. The technology used by the Company to manufacture SAW components has much in common with advanced semiconductor fabrication. The Ferrites and Inductors segment produces cores for inductors made of soft magnetic ferrite, an iron-oxide-based synthetic material. This segment also includes transformers, components for electromagnetic compatibility (EMC) 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 (loss) 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 is presented in the following table:

FINANCIAL INFORMATION ON BUSINESS SEGMENTS

(€ million)

	Capacitors	Ceramic Components	SAW Components	Ferrites and Inductors	Elimi-nations	Conso-lidated total
2003						
Net sales to third and related parties	**350.4**	**355.8**	**403.8**	**161.6**	**-**	**1,271.6**
EBIT	**(10.8)**	**15.9**	**16.7**	**(16.3)**	**-**	**5.5**
Interest result, net						**(8.8)**
Loss before income taxes and minority interest						**(3.3)**
Depreciation and amortization	**31.3**	**30.2**	**78.5**	**14.5**	**2.8**	**157.3**
Capital expenditures	**18.8**	**25.9**	**37.0**	**12.2**	**4.5**	**98.4**
Total assets	**419.9**	**375.6**	**411.9**	**221.6**	**-**	**1,429.0**
2002						
Net sales to third and related parties	355.9	338.0	471.2	146.6	-	1,311.7
EBIT	(14.8)	(9.8)	(4.7)	(42.8)	-	(72.1)
Interest result, net						(6.4)
Loss before income taxes and minority interest						(78.5)
Depreciation and amortization	28.2	31.2	94.5	15.3	2.4	171.6
Capital expenditures	36.9	23.9	40.0	21.3	9.4	131.5
Total assets	388.4	329.5	444.0	181.7	-	1,343.6
2001						
Net sales to third and related parties	532.3	473.7	635.2	264.1	-	1,905.3
EBIT	87.5	77.5	28.5	14.4	-	207.9
Interest result, net						(2.2)
Income before income taxes and minority interest						205.7
Depreciation and amortization	31.0	27.7	118.2	14.6	2.4	193.9
Capital expenditures	75.8	62.8	168.0	36.9	5.4	348.9
Total assets	407.7	328.2	476.9	204.9	-	1,417.7

Information on the principal geographical areas, net sales for the years ended September 30, 2003, 2002 and 2001, and identifiable assets as of September 30 in those years are presented in the following table:

FINANCIAL INFORMATION ON GEOGRAPHICAL AREAS

As of September 30 (€ million)

	2003		2002		2001	
	Net sale	Identifiable tangible assets	Net sale	Identifiable tangible assets	Net sale	Identifiable tangible assets
Europe						
Germany	**351.5**	**234.5**	317.1	243.2	486.6	261.4
Austria	**30.1**	**84.5**	28.7	94.9	44.0	123.1
Other	**417.1**	**161.5**	490.7	170.1	689.0	153.4
Asia	**328.9**	**138.6**	300.4	189.3	369.6	215.7
United States	**75.6**	**13.2**	95.3	24.3	182.0	30.7
Other	**68.4**	**17.2**	79.5	15.3	134.1	18.5
Total	**1,271.6**	**649.5**	1,311.7	737.1	1,905.3	802.8

21. Acquisitions

During the years ended September 30, 2003, 2002 and 2001, the Company made a number of relatively small acquisitions, all of which were accounted for under the *purchase* accounting method and included in the consolidated financial statements.

The Company adopted SFAS No. 141 *Business Combinations* which was effective for all business combinations initiated after June 30, 2001. SFAS No. 141 requires that all business combinations have to be accounted for by the *purchase* method and requires separate recognition of intangible assets apart from goodwill, if they meet contractual-legal criteria or a separability criterion. None of the Company's acquisitions during the fiscal years ended September 30, 2003, 2002 and 2001 were significant to the Company's results of operations for the respective periods.

In total the Company paid €9.703 million in fiscal 2003 and €2.813 million in fiscal 2002 net of cash acquired for acquisitions of consolidated companies. Goodwill of €8.909 million in fiscal 2003 and €0.209 million in fiscal 2002 arose on these transactions.

Munich, November 14, 2003

Pegam Dr. Backes Unterlass

Financial and technical glossary

ADR American depositary receipt. Traded on US stockmarkets instead of shares in foreign-based companies, ADRs make it easier for companies based outside the US to access American capital markets and enable American investors to buy stocks in foreign-based companies. One ADR for EPCOS AG is equivalent to one EPCOS AG share.

ADSL Asymmetric digital subscriber line. A widespread technology for broadband digital data transmission over conventional copper wires. Asymmetric means that the downstream data rate (i.e. from Internet to customer) on private ADSL lines is considerably higher than the upstream rate.

Bilateral loan A loan or credit line agreed directly between borrower and bank.

Bit Binary digit. The smallest unit of digital information. Modern storage media such as CDs or DVDs can store billions of bits. Eight bits make one byte.

Blister tape Plastic-based packaging material. Electronic components are often packed in long blister tapes, which in turn are wound around reels like films. Automated production machinery removes the components needed for placement in electronic devices. Wherever component size permits, blister tapes are being progressively replaced by environmentally friendly cardboard tapes.

COMPETE Launched in 2002, the COMPETE program stands for cost management, process excellence and time efficiency. It describes a change in EPCOS' corporate culture that pursues three goals: rapid reduction of costs, simplification and optimization of processes, and making better use of time. It uses the Six Sigma methodology successfully applied for years by major companies. Six Sigma uses statistical means to optimize processes throughout the company.

CSSP Chip-size SAW package. A packaging technology developed by EPCOS for further miniaturization of surface acoustic wave (SAW) filters. The area of a CSSP component is virtually identical with that of the bare die and not enlarged by the package. Filters in CSSPs are primarily found in mobile radio applications.

DVD Digital versatile disk. A storage medium with the same dimensions as a compact disk (CD) but substantially higher memory capacity. The DVD is therefore suitable for storing the data of a full-length movie, for example, complete with supplementary information.

EBIT Earnings before interest and tax.

Equity ratio Proportion of shareholders' equity to a company's total assets.

FBAR Film bulk acoustic wave resonator. An innovative filter developed by EPCOS. High power and small size make FBARs ideal for next-generation mobile phones.

Front end In wireless terminals, the system unit that processes radio-frequency signals in the send and receive directions. A front end basically comprises radio-frequency filters (usually in SAW technology), intermediate-frequency filters, and duplexers, which permit switching between send and receive frequencies. It includes demodulators and amplifiers.

Front-end module Combines all front-end functions in one unit. Several dozen passive electronic components are integrated into a single unit or module. Thanks to front-end modules from EPCOS, front-end space requirements can be reduced by as much as 95%.

Hotspot WLAN base station installed in public places such as airports, hotels, coffee shops, etc. Users of WLAN-enabled notebooks, for example, can thus gain wireless access to the Internet.

NAFTA North American Free Trade Agreement or Area. Comprises the United States, Canada and Mexico.

Net cash flow Net cash provided by or used in operating and investing activities.

NTC Negative temperature coefficient. Refers to a property exploited in ceramic temperature sensors in which resistance falls as temperature rises. NTC sensors are mainly used to measure and monitor temperature in household appliances and motor vehicles.

Piezo actuator The key component of piezoelectric fuel injection systems in diesel and gasoline engines. Key benefits are lower fuel consumption, and reduced exhaust and noise emissions. It uses the inverse piezo effect. If a voltage is applied to a piezoelectric crystal, its dimensions change. But this effect cannot be exploited and no significant change in length obtained until several hundred layers of piezoelectric material are superimposed. Piezo actuators made by EPCOS today contain 350 layers in a stack.

SARS Severe acute respiratory syndrome. First diagnosed in China in November 2002. The epidemic peaked in spring 2003 with a regional focus on Asia.

SMS Short Message Service. Enables text messages keyed in on a mobile phone to be sent to other mobile phone users. MMS - Multimedia Message Service - is a further development of the popular SMS. Messages from an MMS-enabled mobile phone may include music or pictures and can also be sent to e-mail addresses.

Standard & Poor's Independent rating agency that provides standardized indicators for evaluation of a company's creditworthiness.

Syndicated loan A loan or credit line extended by a group of banks. Depending on the size of the loan, the syndicate is headed by one or more banks.

Telematics Neologism representing the synthesis of computers and telecommunications. Traffic control systems are a prime application of telematics.

Ultracapacitors Can store up to 100 times more electrical energy than conventional capacitors without any increase in size. Ultracapacitors thus close the technology gap between rechargeable batteries and capacitors for energy storage.

US GAAP United States Generally Accepted Accounting Principles. The concepts, measurements, techniques and standards of presentation applicable to financial statements in the US.

Wafer A palm-sized slice of crystalline material. At EPCOS, these primary products are made of lithium niobate, lithium tantalate or quartz, and used to manufacture surface acoustic wave filters and resonators.

Wi-Fi Wireless fidelity. An open standard for wireless broadband data transmission. In contrast with GSM (Global System for Mobile Communication) or UMTS (Universal Mobile Telecommunications System), Wi-Fi operators do not have to pay for or even obtain a license.

WLAN Wireless local area network. WLANs have a range up to 300 meters and transmit data from WLAN-enabled terminals such as notebooks in a license-free radio-frequency band.

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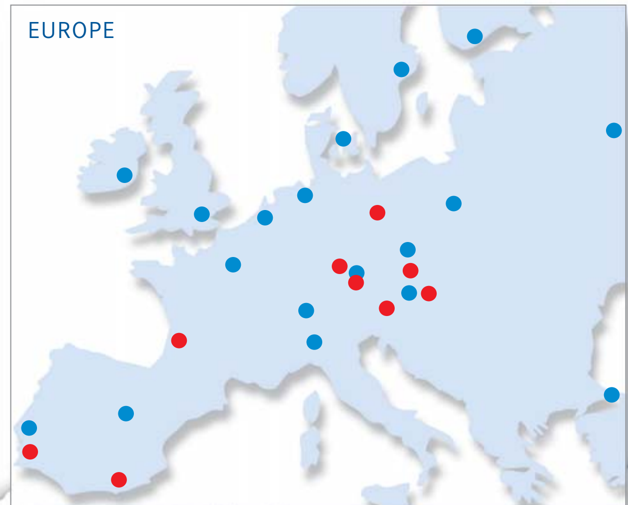
OVERVIEW OF FACILITIES

● Plants and design centers ● Marketing and sales centers

At September 2003



PLANTS AND DESIGN CENTERS

CAPACITORS
Heidenheim, Germany
Évora, Portugal
Gravataí, Brazil
Málaga, Spain
Nashik, India
Szombathely, Hungary
Wuxi, China
Zhuhai, China

CERAMIC COMPONENTS
Deutschlandsberg, Austria
Berlin, Germany
Johore Bahru, Malaysia
Szombathely, Hungary
Xiaogan, China
Zhuhai, China

SAW COMPONENTS
Munich, Germany
Deutschlandsberg, Austria
Palo Alto, CA, USA
Singapore
Wuxi, China

FERRITES AND INDUCTORS
Munich, Germany
Bordeaux, France
Heidenheim, Germany
Kalyani, India
Šumperk, Czech Republic
Szombathely, Hungary
Zhuhai, China

ORGANIZATION CHART

At September 30, 2003

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SAW Components

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Svatopluk Tomek

Inductors

Jürgen Thomas
Falko Steffen

CORPORATE DEPARTMENTS

WORLDWIDE SALES NETWORK

Branch offices, regional sales offices, distributors

PRINCIPAL SUBSIDIARIES

At September 30, 2003 (data to US GAAP)

	Equity capital € thousand	Earnings (Losses) € thousand	Equity interest in %
Germany			
Ernst Herrmann Ingenieur AG & Co. KG, Berlin (formerly Ernst Herrmann Ingenieur GmbH & Co. KG)	4,128	2,061	100
Europe without Germany			
EPCOS OHG, Deutschlandsberg, Austria	57,436	(19,869)	100
EPCOS-Peças e Componentes Electrônicos S.A., Évora, Portugal	63,337	6,504	100
EPCOS ELECTRONIC COMPONENTS S.A., Málaga, Spain	5,633	(5,028)	100
EPCOS s.r.o., Šumperk, Czech Republic	8,398	(2,016)	100
EPCOS SAS, Bordeaux, France	(1,206)	(9,963)	100
EPCOS Elektronikai Alkatrész Kft., Szombathely, Hungary	2,333	(795)	100
EPCOS UK Ltd., Bracknell, United Kingdom	2,199	589	100
EPCOS Nordic AB, Kista, Sweden	1,122	434	100
EPCOS Nordic OY, Espoo (Helsinki), Finland	534	303	100
EPCOS Finance B.V., Amsterdam, Netherlands	343	12	100
Asia			
EPCOS PTE LTD, Singapore	162,650	49,958	100
EPCOS (China) Investment Ltd., Shanghai, China	36,977	356	100
EPCOS India Private Ltd., Nashik, India	7,468	862	100
EPCOS (Zhuhai FTZ) Co., Ltd., Zhuhai, China	11,269	2,553	100
EPCOS (Wuxi) Co., Ltd., Wuxi, China	14,556	8,044	100
EPCOS (Xiaogan) Co., Ltd., Xiaogan, China	2,910	755	76
EPCOS Ferrites Limited, Calcutta, India (formerly International Ferrites Ltd.)	(774)	(2,667)	100
EPCOS KK, Yokohama, Japan	1,551	0	100
EPCOS (Zhuhai) Co., Ltd., Zhuhai, China	3,295	1,490	100
EPCOS SDN. BHD., Johore Bahru, Malaysia	4,559	2,839	100
EPCOS (Shanghai), Ltd, Shanghai, China	840	64	100
EPCOS Ltd., Hong Kong, China	3,446	1,439	100
Americas			
EPCOS do Brasil Ltda., Gravataí, Brazil	21,270	2,395	100
EPCOS Inc., Iselin, New Jersey, USA	15,626	413	100
Crystal Technology, Inc., Palo Alto, California, USA	10,046	1,465	100

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