

Munich, July 8, 2017

## Statement of Continued Support

Message of the Chairman of the Management Board and CEO of EPCOS AG

Since 2003 EPCOS has been a member of the United Nations' Global Compact. At that time we pledged our support because the aims and objectives of Global Compact as expressed in the Ten Principles are in complete agreement with our own understanding and implementation of corporate responsibility. As a TDK Group Company and, thus, subsidiary of a leading manufacturer of electronic components, modules and systems for all electronics industries with R&D, manufacturing and sales activities around the world, we continue to fully embrace these principles as the essential foundations for good corporate citizenship wherever we do business. Our responsibility to society is clearly documented in the TDK Code of Conduct, from which I quote:

"The TDK Group recognizes its role in resolving social issues through creativity and contributing to society. The TDK Group will continue to respect human rights, comply with relevant laws and regulations and international rules, and will discharge its social responsibility with a strong sense of ethical values for the purpose of creating a sustainable society. These corporate principles are binding for all employees, and implemented in our various corporate governance and management systems."

Because sustainability is a long-term strategic success factor for not only our company but also the entire supply chain, we partner with our customers and suppliers to create and live a culture of excellence and responsibility that is built on fundamental values such as passion, respect, integrity and discipline. Our philosophy for collaboration with our customers and suppliers is based on mutual expectations and commitments in terms of reliability, transparency, communication and also sustainability. Therefore, we also demand that our suppliers ensure that their organization and also all of their subcontractors and suppliers comply with the Ten Principles.

Our Global Compact Communicating Our Progress report outlines our activities and achievements in implementing the principles of the Global Compact.

Sincerely,

Signed by

**Joachim Zichlarz**

Chairman of the Management Board and CEO of EPCOS AG

## EPCOS AG

### Global Compact – Communicating Our Progress 2017

EPCOS, a TDK Group Company, is committed to the principles of the Global Compact as a part of its corporate responsibility. The EPCOS corporate website provides detailed information to stakeholders about the company's activities in this context. The Corporate Responsibility pages present the [TDK Code of Conduct](#), which specifically provides the standards and guidelines for compliance with all laws, regulations and social norms, to be followed by TDK and its consolidated subsidiaries, as well as all directors, officers, employees and company auditors who are members of the TDK Group. The corporate ethical philosophy and the corporate standards of business conduct detailed in the TDK Code of Conduct are in full agreement with the principles of the Global Compact. Addressing corporate citizenship and corporate governance, they provide ethical guidelines binding for all employees. Details are also available on environmental management, employee safety and security, and various community involvements.

#### Responsibility toward society

A global presence and cultural diversity shape our company and our business activities. We have employees, customers and partners in many countries of the world. Together, they make up an agile network that exchanges goods, services and knowledge and commits to intercultural cooperation. This dialog provides new ideas and insights while arousing sympathy for and creating confidence in our company and its business policies. EPCOS maintains close contact with educational institutions around the world. Our experts cooperate in basic research with renowned universities and research institutes.

Our sales companies and regional bases are an integral part of the national economies where they operate. We also see ourselves as a good neighbor in the literal sense, purchasing goods and services locally and providing well-paid jobs by local standards. By buying local goods and services, we promote an efficient supply industry. Our local operations thus create extra jobs indirectly.

Wherever we do business, we see ourselves as a member of the local society in which we operate, and as a good corporate citizen that actively contributes to the community and its environment. Among these we count our support for local clubs, organizations and initiatives – a task that our local companies and their employees around the world fulfill with great commitment.

The following examples stand for the broad range of social contribution activities performed around the world in 2016:

- At EPCOS Indonesia in Batam the company launched a training initiative together with SMK Negeri 1, Batam's first vocational school. Now in its third year, the EPCOS Mechatronics Class is already very successful. Two prospective mechatronics specialists

have now been enrolled in advanced qualification programs based on their achievements to date. Three of the trainees also represented Indonesia in the international CNC ASEAN Skills Competition in Kuala Lumpur, Malaysia, in September 2016, and one of them won the silver medal. A second mechatronics trainee achieved such good grades that he was sent to take part in a networking program for Southeast Asian high schools in the eastern Chinese province of Jiangsu. More than 20 trainees are enrolled every three years.

- EPCOS in Šumperk in the Czech Republic was a main sponsor of the Andělárium (Angelarium) 2016, an annual six-day sculpture workshop and festival with concerts, a children's program and other art activities. The purpose of the event, which took place near the town of Šumperk, was to create a unique collection of large wooden sculptures by artists from throughout the Czech Republic under the unified theme of angels and then locate them along the suburban foot trails. EPCOS Šumperk also contributed approximately 1300 euros, which was used to fund the materials and artist for one sculpture. Through its participation, EPCOS Šumperk is supporting the arts in Šumperk and the region and helping to provide a cultural and tourist attraction.
- EPCOS do Brasil donated 15,000 euros to the Instituto do Cancer Infantil, an organization that conducts research into cancer in children. Headquartered in Porto Alegre, not far from EPCOS' own Brazilian base in Gravataí, the institute is devoted to treating children with cancer and providing psychosocial care to their families. In 2016 the company selected the Instituto do Cancer Infantil because it focuses on the care of children and has an exceptionally good reputation, and it pursues non-profit goals.
- EPCOS India in Nashik was one of only three platinum sponsors of the annual "Nashik Run," where around 20,000 Nashik citizens including a few amateur athletes take part in the annual run for charity. EPCOS India helped to organize and participated in the event that raised around 100,000 euros in corporate and private donations for the Nashik Run Charitable Trust. Employees of EPCOS India alone contributed more than 4000 euros. The proceeds from the event support projects to keep water clean, to provide basic medical care, to provide education and training to children and young people, and to help needy people in everyday life.

All of these activities are an integral part of TDK Corporation's overall Social Contribution Activities initiative. Because of long-term success and focus on environmental and educational issues in the communities where the factories are located.

We are convinced that corporate responsibility involves a commitment to society and permanent protection of the environment. To do justice to the diversity of cultures, their values and moral precepts that we encounter, we base our conduct on high ethical standards. Our corporate culture and interpersonal relations within the company, with our customers and with business associates are molded by values such as decency, loyalty, tolerance, and respect for local customs and the law.

EPCOS' commitment to human rights, labor standards and the environment date back to its establishment in 1999 and can be traced back even further to its predecessor companies.

## Systematic corporate social responsibility management

In 2016 EPCOS has continued to make further strides in embedding corporate social responsibility (CSR) in its corporate-wide management systems under the leadership of the Corporate Technology and Quality Department.

CSR coordinators for all EPCOS manufacturing locations worldwide track the CSR status of their respective plants using a comprehensive questionnaire that is based on globally established and promoted standard questionnaires. This CSR questionnaire, which goes beyond the scope of the Ten Principles of Global Compact, covers the following key areas that address conformance to the coming CSR guideline:

- Labor
- Ethics
- Health and Safety
- Environment

These questions are an integral part of internal and external CSR assessment audits of conformance to management system requirements in the context of continuous process improvement. In the previous fiscal year a total of five CSR assessment audits had been successfully performed by an independent, third-party auditor ([DNV-GL](#), a leading certification institution). A further seven sites will be audited in calendar year 2017. The certificates of conformity with the Ten Principles of the UN Global Compact and EICC (Electronic Industry Citizenship Coalition) recommendations for CSR management are posted on the [EPCOS website](#). CSR assessment audits will be conducted concurrently with the audits for the environmental management system (ISO 14001) by an external consultant successively at all EPCOS factories. They will be repeated at least every three years.

The ongoing training of CSR coordinators, the management team and employees is a further focus of the company's CSR management. For example, workshops were conducted in Malaysia for our plants in Southeast Asia in order to provide CSR coordinators an improved understanding of the EPCOS' CSR objectives and processes. In addition, e-learning tools were provided in the corporate Intranet to inform and educate all employees about CSR and business ethics. The objective of all these measures is to ensure full compliance with the TDK Code of Conduct by members of the management teams and all employees.

## Partnership for sustainability

EPCOS calls on its business partners to ensure that their organization and also all of their subcontractors and suppliers comply with the Ten Principles of the Global Compact. We rely on our suppliers to communicate and actively promote the standards of these principles throughout their entire supply chain. To promote our partnership with suppliers EPCOS set up a specific [suppliers' page](#) on the website, which offers a link to the Ten Principles and outlines our philosophy of collaboration in terms of reliability, transparency, communication and sustainability. In addition, all purchase orders issued by the company contain the

statement, “EPCOS supports the UN’s Global Compact Initiative and aligns all of its activities with the initiative’s Ten Principles. We rely on you to comply with the standards of these principles,” and refer to our suppliers’ page.

In order to ensure that the company’s sourcing is compatible with its corporate principles EPCOS established a general guideline for all employees involved in dealing with external suppliers, service providers, partners or any other third party with the intention of purchasing goods or services. The EPCOS [Procurement Policy](#) addresses the fair and impartial selection and evaluation of sources and the company’s policy on quotations.

The Procurement Policy also includes EPCOS’ position on Conflict Minerals – tantalum, tin, tungsten, and gold obtained from mines and areas controlled by armed rebels in the Democratic Republic of the Congo (DRC) or in adjoining countries. These groups have been conducting illegal mining and smuggling of minerals to fund their rebel activities. These actions not only serve to further conflict, but constitute violations of human rights through forced labor and the abusive treatment of local people. EPCOS has no intention of supporting the above-mentioned illegal activities and violations of human rights. We place a high priority on communication in our supply chain with regard to such Conflict Minerals, and therefore require our suppliers to disclose such information and, if appropriate, share it with our customers.

## **Responsibility for our people**

Measures have been implemented in order to ensure adherence to company labor rules. For example, to protect juvenile workers and preclude excessive working hours, the age and working hours of all persons employed in our company are subject to regular checks, as are also the living conditions of workers who reside in dormitories.

We seek to actively nurture the creativity of our employees. Their health and ongoing personal development are matters of prime concern to us. Their knowledge and skills are the basis of our competence, and thus of our business success. Our personal development program, among other things, enables employees to exchange their production experience across different locations and attend production-related training courses, besides attending specialized seminars outside the company.

To prepare our best people for future leadership roles, EPCOS has established the Junior Management Circle. About two-thirds of the top management positions throughout the Group are recruited from this group. On average, 20 people a year participate in the program. As a result, they spend two years in the Junior Management Circle and represent all the Group’s key functions as well as the main regions in which we operate.

To further improve protection for employees’ health and safety at work, EPCOS has introduced and maintains an occupational health and safety management system at its production facilities in conformance with OHSAS 18001 (the Occupational Health and Safety Assessment Series). As part of the program, every workplace has been assessed to identify

possible threats, provide preventive protection against accidents, and minimize risks. These risk factors not only include mechanical and electrical dangers, hazardous substances, fire risks, and physical stresses and strains, but also psychological factors such as changing working shifts. As part of the management system, occupational safety officers have been appointed for each production facility to oversee and ensure compliance with the occupational safety rules and regulations that have been harmonized for all EPCOS production sites.

## **Responsibility toward the environment**

EPCOS is committed to protecting the environment as much as possible. As a manufacturer of passive components and electronic systems with factories located around the world, EPCOS is continually improving its production processes to conserve energy and reduce CO<sub>2</sub> emissions, to minimize water consumption and waste, and to avoid introducing harmful substances into the environment as much as possible. To support this process the company's production sites worldwide conduct environmental programs and projects on a regular basis.

In the course of the past fiscal year EPCOS has initiated and completed nearly 70 projects and actions to increase its energy efficiency and thus minimize its negative impact on the environment. Some examples are:

- Further advanced heat-recovery systems were installed in three factories in order to optimize energy utilization. Thanks to the new installation, substantial energy savings of 2.7 GWh were realized in Munich plant alone again, for example.
- Compressed air systems were improved at seven of our plants around the world, resulting in noticeable energy savings. For example, in our facilities Málaga, Spain, Deutschlandsberg, Austria, and Johore Bahru, Malaysia, we were able to save a total of 500 MWh.
- Four further production facilities upgraded their lighting by replacing older fluorescent lights with more energy-efficient LED systems.

Maximizing energy efficiency is one of the essential pillars of EPCOS environmental efforts. In order to achieve all targets concerning the minimization of energy consumption, EPCOS is going to extend its certified ISO 50001 energy management system to all production sites located in the European Union.

## **Focus on eco-design in product development**

Another chief concern of EPCOS is to treat our resources with care. EPCOS works continuously to increase its resource efficiency in the design and manufacture of products. In order to determine and document the eco-friendliness of products compared to previous



generations the company conducts an internal assessment as a part of the product design process. The analysis covers the amount of materials and energy used in the production process, the energy consumption of the finished products in operation and the recyclability of the products at the end of their life cycle.

EPCOS follows the example of TDK and calculates the contribution its products make toward reducing the company's CO<sub>2</sub> balance. Each product's per annum CO<sub>2</sub> emissions based on the energy and material used to produce it and the energy the product consumes in operation over its projected lifetime are compared with the per annum CO<sub>2</sub> emissions of a benchmark product – either the product's predecessor or an exemplary standard product in the market. The difference represents the positive impact of the product on the company's CO<sub>2</sub> savings. In 2016, EPCOS achieved a balance between all of the CO<sub>2</sub> it emitted and the sum of all CO<sub>2</sub> savings for all products.

### **Energy efficient portfolio**

While the world's appetite for energy is increasing, its reserves of fossil fuels are not. In the debate about climate change, calls for a reduction in carbon dioxide emissions are growing ever louder. In this context, technological solutions that improve energy efficiency are becoming increasingly important. Thus, EPCOS offers an ever wider spectrum of products that directly or indirectly improve energy efficiency. Examples of EPCOS products in environmental friendly applications include:

- Some 20 different EPCOS products, including protection devices, film capacitors, chokes, transformers and thermistors can be fitted in the electronic lamp ballasts and control electronics of energy-saving LED lighting fixtures. Compared to conventional lighting technologies, LED lamps and lighting systems can help cut energy consumption drastically, while significantly extending life expectancy of the lamps.
- Our power capacitors are used in high-voltage DC transmission systems, for example. This technology enables power to be transmitted across long distances – from offshore wind farms to the coast, for instance – in a way that is economical, kind to the environment and minimizes losses.
- EPCOS offers innovative power capacitors based on a piezo-ceramic material that features an unrivalled combination of capacitance density and ripple current capability, which enables compact and lightweight traction inverter solutions that save space and energy in electric vehicles.
- Our sensors are used in engine management, for example, to measure the temperature of operating fluids and to measure the vapor pressure in exhaust recirculation systems.
- In both cars and household appliances, EPCOS products contribute to easing the burden on the environment. Extremely precise temperature sensors with fast response times enable automotive and home air-conditioners and refrigerators, for example, to be

controlled exactly, thus saving energy. Moreover, the company has introduced sensors that contain no environmentally harmful lead or halogens.

Our ISO 14001-compliant global environmental management system ensures the same high standards of environmental protection worldwide. This code of behavior applies to all locations. Regular audits by DNV-GL monitor compliance every three years. To date, the auditors have consistently certified the effectiveness of our environmental management system. Our aim, however, is not merely compliance with all statutory and administrative requirements, but the efficient use of precious resources too. In doing so, we avoid hazardous substances and minimize waste.

## Better protection of the environment

### Key environmental indicators in absolute values

	Unit	2015 <sup>1</sup>	2016 <sup>1</sup>	2017 <sup>1</sup>
Energy consumption	megawatt-hours (MWh)	547,032	578,631	<b>608,614</b>
CO <sub>2</sub> <sup>2</sup>	tons	109,406	115,726	<b>121,723</b>
Water consumption	cubic meters	2,897,609	3,348,597	<b>3,718,154</b>
Non-hazardous waste	tons	11,622 <sup>3</sup>	10,048	<b>10,810</b>

<sup>1</sup> The EPCOS fiscal year goes from April 1 until March 31 of the following year.

<sup>2</sup> For comparison purposes, the calculation of CO<sub>2</sub> emissions from the use of electrical power is based on a global conversion factor of 0.2 kg/kWh.

<sup>3</sup> Including 1200 t due to a fire in Gravataí, Brazil

In fiscal 2017 (April 1, 2016 to March 31, 2017), TDK experienced strongly growing demand for its products. As a result, the production capacity at EPCOS was further expanded and more products were manufactured. Due to the increase in production volume, EPCOS' vital energy consumption and emissions increased by 5.2 percent compared to the previous fiscal year. Our total energy consumption rose to 608 gigawatt-hours (578 GWh in 2016). Correspondingly, the carbon dioxide emissions were also higher in absolute terms at 121,723 metric tons (115,726 metric tons in 2016). The volume of non-hazardous waste was 10,810 metric tons (10,048 metric tons in 2016), and we improved our recycling rate for non-hazardous waste to above 90 percent. In total, non-hazardous waste increased by 7.5 percent compared to fiscal year 2016. Our overall water consumption increased to about 3.7 million cubic meters (approximately 3.3 million cubic meters in 2016).



### **Key performance indicators in relation to added value**

	<b>Unit</b>	<b>2016<sup>1</sup></b>	<b>2017<sup>1</sup></b>	<b>Difference</b>
Energy consumption	megawatt-hours/1000 EUR	0.35	0.345	<b>-1.5%</b>
Water consumption	cubic meters/1000 EUR	2.0	2.1	<b>+5.4%</b>
Non-hazardous waste	tons/million EUR	6.07	6.13	<b>+0.9%</b>

<sup>1</sup> The EPCOS fiscal year goes from April 1 until March 31 of the following year.

In relation to the company's value added (sales minus cost of materials plus/minus inventory change), however, EPCOS was able to make further improvements in the area of energy efficiency. Energy consumption and carbon dioxide emissions declined by 1.5 percent, while water consumption increased by 5.4 percent relative to the value added, mainly caused by new processes at the factory in Deutschlandsberg, Austria, which require more water. Due to the company's strong growth in manufactured products and the implementation of new processes, non-hazardous waste was actually slightly higher than in fiscal year 2016, resulting in an increase in non-hazardous waste per added value of 0.9 percent.

The trend of the key performance indicators shows an improvement in the effectiveness of EPCOS' utilization of energy resources. Over the past four years that EPCOS has tracked the energy performance indicator, the amount of electrical power needed per euro of added value has steadily decreased.

Consumption, emissions and waste fluctuate somewhat over the years. Viewed over the long term EPCOS' performance has developed positively. Since 2013 energy consumption per added value has been reduced by around 25 percent. This parameter tends to rise when business is slow, reflecting the fact that energy can be used more efficiently when a higher volume of products are manufactured and production capacity is better utilized.

### **Proactive response to rising environmental protection demands**

EPCOS' dedication to the environment is summarized in seven [environmental protection principles](#). These include assessing the environmental impact of new products and processes right from the design stage, and regular monitoring and updating of technological and organizational procedures to ensure ongoing environmental protection.

Since the EU's directive on the Restriction of Hazardous Substances (RoHS I) went into effect in July 2006, electrical and electronic equipment can be sold in the European Union only if it meets the requirements of this directive. The RoHS directive aims to eliminate the use of four heavy metals – mercury, chromium, cadmium and especially lead – and also to ban the use of polybrominated biphenyls and polybrominated diphenylethers. In the meantime, the RoHS I Directive has been replaced by the RoHS II Directive. EPCOS is fully compatible with all aspects of the [RoHS II Directive](#). Moreover, EPCOS restricts the use of halogenated organic substances in its products. Wherever possible and economically feasible, those substances had been replaced by environmentally friendly solutions.

All products that EPCOS manufactures in, exports to, or sells in China are affected by China's law entitled "Management Methods for the Restriction of the Use of Hazardous Substances in Electrical and Electronic Products," and known as China RoHS II. EPCOS offers its customers an online service to help them comply with the requirements of [China RoHS II](#).

Today's markets demand more and more information about the materials used in electronic components. Material data sheets that are also posted on the Internet provide examples of the typical composition of our product families. On request, we also supply customers with documentary evidence from certified laboratories for substances whose use is restricted in accordance with RoHS.

Compared with RoHS, Regulation (EC) No. 1907/2006 of the European Parliament and of the Council concerning the registration, evaluation, authorization and restriction of chemical substances (REACH) applies to a much wider sector of industry. The purpose of the regulation is to ensure a high level of protection for human health and for the environment. This includes the promotion of alternative methods of assessing the potential risks posed by substances. Under the REACH regulations, manufacturers and importers of substances must obtain all the data needed to assess the substances they produce or import. They must also demonstrate convincingly that their substances are safe to handle for all identified uses and thus harmful effects on human health and the environment can be avoided. Registration is required for each substance produced or imported in quantities of one metric ton or more per year per manufacturer/importer. This is done with the ECHA, the European Chemicals Agency, which is based in Helsinki, Finland.

EPCOS has been implementing the REACH requirements since the end of 2006, thus ensuring that it will be able to comply with these within the set time limit. Also, EPCOS was involved at a very early stage in the process of developing the REACH regulations. For example, EPCOS supported studies into the impact of REACH on the German economy and helped to draft the final document, Guidance for downstream users. EPCOS offers its customers a comprehensive online service about [REACH](#).

EPCOS avoids critical substances as much as possible at an early stage of design. The company's certified quality management system for ISO/TS 16949 includes a material compliance management process. EPCOS introduced its Banned and Declarable Substance List as a basic document for material compliance and environmentally friendly products.

Many product and system manufacturers have no choice but to factor environmental considerations into the design of their products. Failure to do so can damage their reputation among consumers, their brand image and, hence, their business. Some of our customers therefore go beyond the requirements of law and impose their demands on the entire supply chain. EPCOS satisfies the strict environmental protection directives of Japan's Sony Group, for example. Sony buys components only from manufacturers and resellers who have been audited and certified as »Green Partners«.

## Active involvement in associations – part of our CSR policy

EPCOS plays an active role in numerous committees, workgroups and commissions in the electronics industry, such as the International Electrotechnical Committee (IEC) and the German Electrical and Electronic Manufacturers' Association (ZVEI Zentralverband Elektrotechnik- und Elektronikindustrie). This enables us to identify future trends in legislation that may affect our business and helps us respond quickly and comprehensively to any resultant laws. Actively shaping future regulations and standards is part of our corporate CSR policy.

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### Links to resources on EPCOS' website

- Global Compact [www.epcos.com/global\\_compact](http://www.epcos.com/global_compact)
- TDK Code of Conduct [www.epcos.com/coc](http://www.epcos.com/coc)
- Corporate responsibility [www.epcos.com/corp\\_resp](http://www.epcos.com/corp_resp)
- Partnership with suppliers on sustainability [www.epcos.com/cr\\_supplier](http://www.epcos.com/cr_supplier)
- Procurement policy and response to conflict minerals [www.epcos.com/procurement\\_policy](http://www.epcos.com/procurement_policy)
- Certificates for CSR assessment audits [www.epcos.com/certificates](http://www.epcos.com/certificates)
- Environmental protection [www.epcos.com/environment](http://www.epcos.com/environment)
- Environmental management [www.epcos.com/environ\\_management](http://www.epcos.com/environ_management)
- Environmental report [www.epcos.com/environ\\_report](http://www.epcos.com/environ_report)
- Material data sheets [www.epcos.com/material](http://www.epcos.com/material)
- RoHS II Directive of the European Union [www.epcos.com/rohs](http://www.epcos.com/rohs)
- China RoHS II [www.epcos.com/china\\_rohs](http://www.epcos.com/china_rohs)
- REACH [www.epcos.com/reach](http://www.epcos.com/reach)