



Electronic Parts and Components

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 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 and the environment is clearly documented in our Corporate Principles, from which I quote:

"We see ourselves as an integral part of the societies and national economies in which we operate and we feel a strong sense of responsibility to the norms that they uphold. We honor this commitment by exhibiting integrity in all interpersonal dealings. Ethical business behavior on the part of every employee contributes to our company's positive image.

"We respect the dignity, privacy and personality of every individual. We value the ethnic and cultural diversity of the people at our company. We work together with men and women of different nationalities, cultures, creeds and colors without prejudice. We are aware that the competence and dedication of our employees are the foundation of our corporate success. We do not tolerate discrimination, sexual or other personal harassment or offence."

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



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Global Compact – Communicating Our Progress 2014

Since October 2009, EPCOS is no longer a publicly listed company, but a Member of TDK-EPC Corporation and thus a TDK Group company. EPCOS 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 EPCOS' [Corporate Principles](#), which coincide with the principles of the Global Compact. Addressing corporate citizenship and corporate governance, they provide ethical guidelines binding on 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 three examples stand for the broad range of social contribution activities performed around the world:

- In the past year, EPCOS donated EUR 20,000 to support "Sternstunden," a respected charity that operates mainly in Germany, which promotes relief projects to sustainably improve living conditions for girls and boys who are sick, disabled or needy in other ways. The projects include the renovation and modernization of the building for the "Institute for the Blind" foundation in Wuerzburg, where blind and deaf children are taught and cared



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for. Another project supports a house in Munich for children with chronic respiratory diseases, who require intensive nursing care and therefore cannot be cared for at home. Yet another administers therapy involving animals in order to help chronically ill and severely disabled children. To further extend the range of therapeutic offerings, Sternstunden is supporting a new "Center for Animal-Assisted Therapy and Education" in Augsburg.

- In a program now into its fourth year, employees at the EPCOS plant in Gravataí, Brazil, are teaching schoolchildren in the surrounding area the principles of environmental protection. Their aim is to help the students develop a greater sense of responsibility toward the environment. In 2013, around 40 children from the local Marista school for children with special needs took part in the program. The children walked the EPCOS environmental path and learned the importance of keeping the environment clean and healthy for future generations. They were also sensitized to the importance of clean water by learning about how waste water is purified at the EPCOS plant.
- In a project that is slated to run for several years, the EPCOS plant in Hongqi, China, is supporting the local Xinfu school. As a first step, employees set up a library, donating around 260 books. The company then went on to launch the EPCOS Scholarship Award, which recognizes students for their outstanding academic performance.

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, TDK recognized the activities in Brazil and China with TDK Group Social Contribution Activities Awards.

Our conviction that corporate responsibility involves a commitment to society and permanent protection of the environment is documented in our Corporate Principles. 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 2013 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 five key areas that address conformance to the coming CSR guideline:

- Labor
- Ethics
- Health and Safety
- Environment
- Information Security and Data Protection

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 Det Norske Veritas](#), a leading certification institution). A further ten sites in both Europe and Asia will be audited in calendar year 2014. 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](#). Within the scope of the environmental management system (ISO 14001), CSR assessment audits will be conducted successively at all EPCOS factories.

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. This statement is also a standard element in the auto-signature of all purchasing employees.

In order to ensure that the company's sourcing is compatible with the 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.



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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. Already over 90 percent of our suppliers have confirmed that no raw materials are procured from conflict regions. We actively monitor our supplier base on a regular and ongoing basis, also by means of a supplier audits. These – like our VDA 6.3 process, environmental, CSR and environmental product quality audit – were established according to rules defined jointly with TDK Corporation and standardized throughout the TDK Group.

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.

Responsibility toward the environment

EPCOS is committed to protecting the environment in every way possible. As a manufacturer of electronic components, modules and systems with factories located around the world, EPCOS is continually improving its production processes to conserve energy and reduce CO₂ emissions, to minimize water consumption and waste, and to avoid introducing harmful substances into the environment as much as possible. Exemplary projects include:



- The EPCOS factory in Munich, Germany, has installed a central filtering and incineration plant to clean the solvent-contaminated exhaust air from the cleanrooms where wafers are produced, almost completely reducing the factory's solvent emissions. The wafer manufacturing process uses some 180 tons of harmful photoresists and solvents every year. The new exhaust air system serves about 50 cleanroom exhaust air units in three buildings. Environmentally friendly natural gas is used to heat the concentrated solvent-contaminated exhaust air to higher than 800 °C. As this happens, the solvent molecules break down into carbon dioxide and water. Almost all of the heat from the incineration process is reused.
- The factory in Munich has also installed a cogeneration unit to supply both heat and power to the production facilities. A gas engine powers the cogeneration unit, driving a generator that in turn produces electricity. Efficiency levels of more than 90 percent are achieved by combining heat and power generation: The heat given off during the process of generating electricity is fed into the plant's heating system in the form of hot water. The plant's total demand for electric power averages 29,000 megawatt-hours (MWh) a year, of which the cogeneration unit now supplies around 1,200 MWh (more than 4 percent). The new unit also contributes about 1,800 MWh of heat energy to the plant every year.
- The company's factory in Berlin, Germany, has implemented a closed-circulation cooling system for the injection mold machines used to manufacture temperature sensors instead of an open system. In the past, fresh water cooled the production equipment and was discharged directly into the river under a special permit. With the new cooling water circulation system the factory has drastically cut its water consumption by more than 80 percent. As an added benefit, the thermal load to the river has been eliminated.

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. EPCOS offers an ever wider spectrum of products that directly or indirectly improve energy efficiency.

- LED lamps and lighting systems that can help cut energy consumption drastically compared to conventional lighting technologies, while significantly extending life expectancy of the lamps: 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 LED lighting fixtures.
- Through their permanent commitment to innovation product development engineers at the EPCOS plant in Szombathely, Hungary, have succeeded in further reducing electrical losses in aluminum electrolytic capacitors. A new electrolyte fluid, which is essential for the flow of electrical current between the layers of aluminum foil inside the capacitors, was designed with a significantly improved conductivity. This increases the energy efficiency of



the capacitors and, in turn, raises the efficiency of the equipment in which these capacitors are used – thereby helping to protect the environment. For these efforts, the company was presented with an Innovation Prize by the Hungarian Innovation Foundation.

- EPCOS 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 piezo actuators, which are the heart of modern fuel injection systems, help to boost the energy efficiency of automobiles. Car manufacturers use piezo fuel injection systems for both diesel and gasoline engines in order to control the fuel injection process more precisely, and thus the amount of fuel injected more finely. This permits more efficient combustion with lower harmful emissions.
- EPCOS 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 Det Norske Veritas](#) 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	2012 ¹⁾	2013 ¹⁾	2014 ¹⁾
Energy	megawatt-hours	483,738	468,447	520,719
CO ₂ ²⁾	tons	98,853	95,758	103,533
Water consumption	cubic meters	2,119,047	2,642,431	2,519,831
Waste ³⁾	tons	10,208	8,989	9,587

¹⁾ The EPCOS fiscal year goes from April 1 until March 31 of the following year.

²⁾ For comparison purposes, the calculation of CO₂ emissions from the use of electrical power is based on a global conversion factor of 0.2 kg/kWh.

³⁾ Non-hazardous waste

In fiscal 2014 (April 1, 2013 to March 31, 2014), TDK posted healthy gains in sales. As a result, the production capacity at EPCOS was further expanded and more products were manufactured. In addition, three further factories are now included in the analysis of environmental data. For these reasons, EPCOS' vital energy consumption and emissions increased by 8 percent compared to the previous fiscal year. Our total energy consumption rose to 521 gigawatt-hours (468 GWh in 2013). Correspondingly, the carbon dioxide emissions were also higher in absolute terms at 103,533 metric tons (95,758 metric tons in 2013). The volume of non-hazardous waste was 9,587 metric tons (8,988 metric tons in 2013). Here we were again able to increase our recycling rate for non-hazardous waste by nearly a third to 84 percent compared to 78 percent in 2013. Our overall water consumption however declined to just over 2.5 million cubic meters (approximately 2.6 million cubic meters in 2013).

In absolute terms EPCOS' energy and water consumption grew in fiscal 2014 as did carbon dioxide emissions and waste. In relation to the company's value added (sales minus cost of materials plus/minus inventory change), however, EPCOS was able to make further gains in all of these areas. Thus, energy consumption and carbon dioxide emissions declined by 2 percent and 5 percent, respectively, while water consumption was reduced by a full 16 percent and non-hazardous waste declined by 6 percent.

Consumption, emissions and waste fluctuate somewhat over the years. Viewed over the long term EPCOS' performance has developed positively. Since 2003 when EPCOS began tracking these environmental parameters, energy consumption per added value has been reduced – by around 22 percent. This parameter rises when business is slow. This reflects the fact that energy can be used more efficiently if a higher volume of products are manufactured and production capacity is better utilized.



Thus, EPCOS continues to implement measures at its various locations around the world to protect the environment.

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) 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 new 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. EPCOS is fully compliant with all aspects of the [RoHS directive](#). Moreover, EPCOS restricts the use of halogenated organic substances in its products. Wherever possible, 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 Administration on the Control of Pollution Caused by Electronic Information Products (ACPEIP). EPCOS offers its customers an [online service](#) to help them comply with the requirements of ACPEIP.

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 could 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«. Samsung Electronics awarded us its »Eco Partner« at an early stage.

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.

Links to resources on EPCOS' website

- Corporate responsibility www.epcos.com/corp_resp
- Global Compact www.epcos.com/global_compact
- Partnership with suppliers on sustainability www.epcos.com/cr_supplier
- Procurement policy and response to conflict minerals www.epcos.com/procurement_policy
- Certificates for CSR assessment audits www.epcos.com/certificates
- Environmental protection www.epcos.com/environment
- Environmental management www.epcos.com/environ_management
- Environmental report www.epcos.com/environ_report
- Material data sheets www.epcos.com/material
- RoHS Directive of the European Union www.epcos.com/rohs
- China RoHS www.epcos.com/china_rohs
- REACH www.epcos.com/reach