



Corporate Social Responsibility at PHOENIX CONTACT

Communication on Progress 2012

Contact

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For the sake of readability, masculine pronouns are always used in this document to refer to people. However, these references are intended to include both genders.

Company Presentation



Phoenix Contact is the global market leader for components, systems, and solutions in electrical engineering, electronics, and automation. The family-owned company currently employs 12,800 people worldwide and generated sales of approximately €1.52 billion in 2012. The company headquarters are in Blomberg and Bad Pyrmont, Germany. With the purchase of a nearby production site, the company is firmly rooted in the Eastern Westphalia-Lippe region of Germany. This location is currently used for a portion of the logistics operations. However, further remodeling and expansion plans over the next few years will add a center for training and continuing education.

The Phoenix Contact Group in Germany currently comprises eight companies. In May 2012, culminating a longstanding business relationship, the group acquired APtronic, located in the Sauerland region of Germany. Internationally, the Phoenix Contact Group has a presence in almost 80 countries with seven production facilities, nearly 50 internal sales organizations, and 30 representatives within and outside Europe. The company's highly vertical global production facilities allow it not only to manufacture screws and other parts made of plastic and metal, but also to engineer highly automated assembly machines in-house. The company's range of products includes components and system solutions for supplying power from various sources including wind and solar energy, equipment manufacturing, mechanical engineering, and control cabinet production.

The wide array of innovative components includes modular terminal blocks and special terminal blocks, PCB terminal blocks, plug-in connectors, cable connection technology, and installation accessories. System installers, facility operators, and equipment manufacturers are offered a wide range of comprehensive systems to choose from, including electronic interfaces and power supplies, Ethernet-based and wireless automation systems, solutions for the safety and protection of humans, machines, and data, surge protection systems, and software programs and tools. Integrated solutions, including engineering, service, and training, are tailored to the individual requirements of the automotive, renewable energy, and infrastructure markets.

The company's development units in Germany, China, and the U.S. create product innovations and customized solutions to meet individual customer requirements. A great number of patents point to the uniqueness of many Phoenix Contact designs. Phoenix Contact employees work closely with universities and scientific organizations to research future technologies such as electric mobility and environmental technologies and to transform them into marketable products, systems, and solutions.

Corporate Principles

As already presented in previous Communication on Progress reports, the company guidelines are specified in the Corporate Principles and provide all employees, customers, and business partners with fundamental orientation for working together to create a relationship based on partnership and trust “in the spirit of friendly, sincere mutual commitment.”

These principles form the foundation for the strategic objective 2020, “Phoenix Contact is the most trusted brand in our industry,” because in addition to innovation, quality, boldness, and service, the values of trust, reliability, and proximity are of vital importance for ensuring successful, long-term partnerships. Achieving the objective of building business relationships based on partnership and trust and creating confidence in the Phoenix Contact brand will require the commitment of all employees and managers worldwide.

Another milestone on the road toward a culture of trust is the introduction of a management model based on the values of the Corporate Principles as described and discussed in detail with the Executive Board and the managers in numerous workshops. Evidence of how far the company has already come toward creating a culture of trust is provided by the “Great Place to Work” award, which is given to the best employers in Germany and in which Phoenix Contact participates in every two years. Individual action items for the various company units are derived from the results and implemented together with the employees in order to continue to build a culture of trust.



Corporate Social Responsibility at PHOENIX CONTACT

As a family-owned company, Phoenix Contact has been keenly aware for many decades of its corporate responsibility to promote sustainable business activities, conserve resources, and honor its social responsibilities to its employees and the various regions. This is one of the reasons for the company's commitment to the Ten Principles of the United Nations Global Compact. Phoenix Contact has undertaken to uphold the set of core values, which include safeguarding human rights, upholding labor standards, a commitment to protecting the environment, and promoting fair business practices. Evidence of the company's commitment to corporate social responsibility is also provided by its role in creating and signing the ZVEI Code of Conduct in 2009. In addition to the areas covered by the Global Compact, this code of conduct, which was developed by ZVEI, the German electrical engineering and electronics industry association, includes civic involvement. Corporate social engagement is enshrined within the company on a global basis in the Corporate Strategy.



This corporate engagement is manifested in many projects, initiatives, and products in the areas of economy, the environment, and employee and community affairs, some of which will be presented below.

■ Interview with Prof. Dr. Gunther Olesch

What does corporate social responsibility mean for Phoenix Contact?

Prof. Dr. Olesch: “For us, corporate social responsibility describes a commitment that we have made to our employees, our business partners and customers, our regions, and future generations. We intend to apply confident resolve, creative drive, and moral responsibility in order to fulfill our responsibilities and to cultivate a relationship ‘based on partnership and trust’ with all of our partners that reflects our corporate culture.”

What characterizes corporate social responsibility at Phoenix Contact?

Prof. Dr. Olesch: “At Phoenix Contact, corporate social responsibility involves the areas of the environment, economy, and social affairs, and is always viewed holistically. Protecting the environment is an integral component of our corporate policy, and the sustainable conservation of resources is of vital importance in our business activities. In line with our mission to ‘create progress by providing exciting, innovative solutions,’ we are continuously developing new future-oriented technologies and products in many fields, including renewable energy. We attach great importance to the welfare of our employees and the regions in which we operate, which is why we strive to create an outstanding company culture and are involved in many civic initiatives and projects.”

Why is corporate social responsibility so important to the company?

Prof. Dr. Olesch: “Corporate social responsibility has been an integral part of our corporate culture for decades. This is why we enthusiastically heeded the call by Kofi Annan in 2005 to join the United Nations Global Compact and to conduct our business according to the Ten Principles as a matter of course. What’s more, our customers and business partners expect us to adhere to the Ten Principles, and our employees are greatly appreciative of this commitment, thus forging stronger relationships.”

Economy



The company's latest Communication on Progress described a number of future-oriented technologies and renewable energy applications in the areas of wind power, electric mobility, and energy-efficient automobile production. These and other technologies, including photovoltaics, water and waste water management, as well as products related to energy efficiency, are constantly being refined. In April 2012 at the Hanover Trade Fair, the most important trade fair for the company, numerous new innovations and solutions were introduced for application across a wide variety of industries.

Lightning Monitoring System



At the 2012 Hanover Trade Fair, Phoenix Contact received the Hermes Award from the German exhibition company Deutsche Messe AG for its lightning monitoring system. The award was presented to Phoenix Contact by Annette Schavan, the German Minister for Research, during the opening ceremonies of the 2012 Hanover Trade Fair, with German Chancellor Angela Merkel and the Chinese Prime Minister Wen Jiabao in attendance. This new system helps ensure the availability of decentralized energy generation. The award underscores the system's importance to industry, particularly in the field of renewable energy.

By measuring the number and intensity of lightning strikes on a wind turbine's rotor blades, users are able to perform maintenance as needed. When lightning strikes, data is transmitted online.

This allows remote service technicians to ascertain whether rotor blades were damaged, and if so, which ones, and to determine when the next maintenance should take place.

This information is highly beneficial, particularly when performing time-consuming, costly offshore platform maintenance, and it ensures system availability.

The award-winning lightning monitoring system is finding practical application as a new tourist attraction in the German district of Lippe. Since July 2012, the statue of Hermann in the German city of Detmold has been serving as an object of research. With its exposed position and the sword raised to the sky, the monument is tailor-made to attract lightning strikes. By installing the monitoring system, Phoenix Contact is supporting a demonstration and research object close to the company's headquarters. The system detects the number and intensity of lightning strikes at the monument, and the associated data is provided online through an integrated Web interface. This collaborative project was created by the Lippe Regional Association and Phoenix Contact. The association set up an information terminal at the foot of the Hermann monument to create a new tourist attraction that allows the general public to view the lightning strike data.



Injection Molding Article

With a new development in housings, Phoenix Contact can boast of an exciting project with an extraordinarily innovative outcome: the production of the first 100% biodegradable injection-molded item made of 100% renewable raw materials.



When installing photovoltaic systems on rooftops, the individual panels must be wired to each other. The plug contacts on the microinverter plugs are covered by transport protection caps so that they are not damaged and remain clean. Therefore, it may happen that the protection caps end up in the garden or the gutter when the connection system is installed. Caps made of plastic would be a source of environmental pollution. For this reason, the customer required these protection caps to be made of a biodegradable material. This posed

an entirely new challenge for the plastic products manufacturer. However, after conducting extensive research, the project team found a suitable material that is made primarily of lignin, a natural glue that is produced by trees in order to hold wood fibers together. It is manufactured in pellet form and liquefies when heated just like plastic, which is why it is also called liquid wood. An additional benefit for Phoenix Contact is that the material can be injected using conventional plastic processing machines. It remains to be seen whether this is a material with a future.

Although the transport protection cap, which is 100 percent biodegradable and based 100 percent on renewable raw materials, is a first for Phoenix Contact, this is not the only new development in housings. The composition of housings for durable products is also moving in part away from fossil-based raw materials to partially or fully bio-based base polymers that can hold their own against conventional synthetic raw materials. These base polymers are based partially to completely on derivatives of castor oil, a fully renewable resource that is extracted from a plant that is not used as a foodstuff. Although this new material is based on renewable raw materials, it is not biodegradable and must be recycled using the normal, conventional recycling process. Nonetheless, it represents an innovative step forward.

Events

The theme of the 17th annual Industrial Communication Congress at Phoenix Contact Electronics was energy efficiency. Industrial users presented solutions for increasing energy efficiency and lowering energy costs. In addition, presentations described how energy consumption for specific devices can be detected, analyzed, and used to derive intelligent energy management solutions.



An example of this was the presentation of the results of the Green Carbody Alliance, in which Phoenix Contact (Communication on Progress 2011) participated in the development of an energy detection system that features a linked database. In addition, new designs for green power generation were presented, and the ensuing automation requirements were discussed.

For Phoenix Contact employees, solar technology as a renewable energy source was the focus of the keynote speech “Photovoltaics – Energy technology of the future?” This presentation addressed questions about whether energy would become scarce in the future, what photovoltaics are capable of achieving today, which role it will play in the energy mix of the future, and whether it will provide us with jobs in the years to come.

Ecology



Protecting the environment is an integral component of our corporate policy, and the sustainable conservation of resources is of vital importance in our business activities. We practice this commitment, which is manifested in the Corporate Strategy, at our company sites and in our business processes, as evidenced by numerous examples, some of which were presented in previous Communication on Progress Reports. As part of our development and production processes, we are continually working to ensure the sustainable use of resources. For example, by optimizing our internal machine manufacturing workflows, the use of compressed air has been reduced by approximately 20 to 45%. Heat is generated by various energy sources, including photovoltaics, block-type thermal power stations, geothermal energy, and the use of waste heat, as shown in the following two examples. Furthermore, the parking lot lighting has been optimized and the vehicle fleet has been augmented by electric cars.

Initiatives



Because of its commitment, Phoenix Contact was recognized as a “climate protection company” in 2011. This initiative, which is promoted by the German Ministries for the Environment and Economy and the DIHK (German Chamber of Industry and Commerce), has already been presented in the latest Communication on Progress report. In addition, the company participates in the LEEN-OWL (learning energy efficiency network of Eastern Westphalia-Lippe) in order to leverage the experiences of others to save energy.

Geothermal Energy



The company covers some of its own energy needs, for example, by using geothermal energy to heat and cool the logistics center, which corresponds to the average annual heating requirements of approximately 15 households. Introduced in 2010, this project has been selected as a landmark in the “Land of Ideas.”

Heating with Waste Heat from Production

When planning the construction or refurbishing of buildings, the design always includes new energy-saving and energy-efficient measures. Thus, when a new office building was constructed in 2012, it incorporated the use of waste heat from the neighboring production building. During the production process, when manufacturing plastic housings, injection molding machines generate a great deal of waste heat. The pellets must first be melted at a high temperature before they are pressed into the mold, and a great deal of energy was previously required to draw off the waste heat generated by the machines via the cooling towers. By equipping the new office building with heat pumps and combined cooling and heating ceilings, it is possible to use the waste heat generated in production for either cooling or heating. The high energy standard makes it possible to dispense with fixed radiators.

In addition, attention was paid to ensuring high energy efficiency when designing the components of the ventilation and venting systems, resulting in a high degree of heat recovery efficiency. While it is currently only possible to estimate the savings, it is anticipated that approximately 45,000 liters of heating oil will be saved, which corresponds to approximately 115 tons of CO₂.



■ Employee Affairs



Phoenix Contact attaches especially great importance to ensuring the welfare and advancement of its employees and maintaining an excellent working environment. This is expressed in the Corporate Principles under the heading “Partnership based on trust” by the guiding principle “Our company culture promotes trust and employee development for achieving agreed objectives.”

The management mission statement introduced in 2012 supports this interaction based on trust by enshrining values such as “leadership,” “trust,” “respect and appreciation,” and “support and development.”

Multifaceted measures and tools are provided in areas such as training and continuing education, health management, and balancing family and work life, and they are constantly being updated to meet employee needs. The newly developed trainee program and the company employee mentoring service are presented below.



“Connect” Trainee Program

Phoenix Contact’s trainee program is aimed at graduates. This program gives both trainees and the company the opportunity to get to know one another, to get a feel for skills and strengths, and to find the best job position. As part of the 12-month program, trainees spend time in four different stations within a business area: the testing laboratory, product marketing, technology development, and the competence center, where they become familiar with the processes and gain their first practical job experience. During this time, trainees receive further support in the form of training courses as well as guidance and counseling from mentors in order to ensure that these new employees are fully prepared to start working in their future positions.



In May 2012, Phoenix Contact received affirmation that it conducts a “career-enhancing, fair trainee program” by winning the seal of approval from Absolventa, which recognizes companies that commit to providing high-quality trainee programs and design their own programs accordingly.

Internal Employee Counseling

Internal employee counseling was introduced in April 2012 as an additional component of the health management program. Phoenix Contact seeks to provide employees with objective, confidential counseling to offer assistance in dealing with both job-related and private problems and stressful situations, and to support them in finding practical solutions. In addition, employees can get an overview of support services available in the region that are particularly relevant to their needs, and obtain help in contacting these organizations. The topics addressed may include a range of problems and concerns, including urgent crises following stressful events, workplace-related problems, personal issues, problems related to the family or partner, addiction and dependency, and financial difficulties.



In addition to the FABEL service (family counseling in the Lippe area for employees and dependents for dealing with all types of family-related problems, which was presented in previous Communication on Progress reports), this service embraces yet another aspect of internal health management.

Furthermore, Phoenix Contact regularly invites its employees to attend health education days in which they can learn more about health-related topics from health insurances and pharmacies or get acquainted with the company’s health-related offerings. The goal of the main theme for 2012, “staying healthy and relaxed in everyday life,” was to enhance the employees’ work-life balance. A wide range of exhibitors, seminars, and trial offerings provided valuable tips and suggestions for adopting a positive lifestyle and devising strategies for handling stressful situations. The Actiwell health center promotes both physical and mental fitness for active employees with offerings such as individual training programs, fitness courses, relaxation techniques, back care education, nutritional advice, workplace-related training, and various massage offerings.



Awards

Phoenix Contact believes that it is highly important for its human resources department to undergo external evaluation and to receive employee feedback, which is why the company regularly participates in external surveys and has established a feedback procedure at its Blomberg site.

The so-called “feedback box” gives employees an easy way to provide feedback, input, and suggestions for improvement related to working at Phoenix Contact. Feedback is handled confidentially and is forwarded to the relevant responsible persons so that actions can be initiated for making improvements. Regular reports are provided about frequently arising issues and suggestions for improvement.

Top Employer for Engineers in 2012 and First Place in the Overall Ranking



Phoenix Contact's human resource management tools and structures are evaluated regularly by CRF, an independent research company. In 2012, from among 118 participants, the company garnered first place in the overall ranking and third place in the category of innovation management. The family-owned company received the highest scores in the categories of work-life balance, training, and innovation management. The jury was especially

impressed with the company's structures for spurring innovation and its above-average number of innovative products. The evaluation was based on a detailed examination of the services and activities provided by Phoenix Contact, thus giving the company detailed feedback and a neutral, externally conferred award that makes job applicants aware of the company's excellent qualities as an employer, thereby potentially attracting new employees.

Great Place to Work® 2012



Following on the heels of its successes in 2008 and 2010, Phoenix Contact once again received recognition in two categories from the Great Place to Work® Institute Germany in the Germany-wide competition “Germany's Best Employers 2012.” The workplace culture is determined through detailed interviews conducted with employees and human resources management related to key areas

such as leadership, teamwork, recognition, workplace relations, professional development, and health. Employees find their company to be an attractive employer if they have an especially high level of trust in the people who they work for, are proud of what they do, and enjoy working with their coworkers. Trust is the core attribute of a balanced workplace culture. Trust is created through the perceived credibility of management, the respect that employees feel they are shown, and the degree of fairness with which employees would like to be treated. Phoenix Contact hopes to use this analysis and the resulting TRUST index to put the company on the path toward the strategic objective 2020 “Phoenix Contact is the most trusted brand in our industry” and to derive measures for improvement from it.

Training

In previous Communication in Progress reports, the company published a number of articles describing its commitment to supporting and training young people. This commitment is borne out by the trainee numbers. Since 1957, over 2,000 young people have begun their training at Phoenix Contact's Blomberg and Bad Pyrmont locations, with the number worldwide totaling over 2,500. In 2012 as well, over 100 trainees and work-study students began their training at the Blomberg and Bad Pyrmont sites.

The cross-border project between Phoenix Contact Wielkopolska and Phoenix Contact's Blomberg site is an additional development in which, for the first time, two Polish trainees are receiving training as mechatronics technicians in Germany. The company's goal is to transfer knowledge across borders and to establish uniform standards in training and continuing education. This project is turning the motto "made by Phoenix Contact" into reality as part of an intercultural exchange.



In addition to exchanging technical knowledge and gaining professional experience, these two young people are experiencing a new cultural setting and a personal working atmosphere. As commuters between Germany and Poland, they are ideal intercultural intermediaries and provide reports in the employee magazine "contact" not only describing their experiences, but also the differences between the two countries.

In addition, Phoenix Contact provides German trainees and work-study students with the opportunity to work for several weeks at foreign subsidiaries and gain intercultural experience. The countries visited include European countries such as the UK, France, Holland, Austria, and Switzerland, as well as countries outside Europe such as the U.S., India, and Singapore. Having been enriched by these experiences, the trainees and work-study students share stories of their experiences and intercultural encounters with their colleagues.

Community Affairs



Phoenix Contact shows its commitment to its regions at a number of levels, as shown by its active participation in initiatives such as the Initiative for Employment, Blomberg Marketing, and the “Bürgerstiftung Zukunft Blomberg” community foundation, as well as its promotion of art, culture, and sports through sponsorships such as the one for TBV Lemgo, a handball team from the region playing in Germany’s premier league. The company also regularly organizes its own events, such as the annual Phoenix Contact Colloquium, the xplora – New Automation Award, and the annual Women’s Power Day.

PHOENIX CONTACT Colloquium



The theme of the 15th annual Phoenix Contact Colloquium, which featured Werner Tiki Küstenmacher as its speaker, was “Simply live simply.” This event, which was organized by Phoenix Contact and the Hochschule OWL University of Applied Sciences, provided the 1,500 attendees with an exciting evening offering practical daily advice on how they can both simplify and improve their lives. Pointers were given on clearing up and disposing

of items in the kitchen, wardrobe, or cellar, as well as on radically cleaning off the desktop. However, the most important tip given was “not to take on too much,” but instead to take reasonable, realistic steps toward achieving a simpler life without setting excessively high goals. However, the speaker did not only address getting rid of possessions, but also discussed psychological counseling.

Xplore – New Automation Award 2012



Phoenix Contact takes its responsibility for future specialists and engineers very seriously, supporting new ideas in automation engineering through the xplora Automation Award training and research competition, which was held for the fourth time in 2012. The goal is to make technology more attractive to the public, to be open to technological progress, and to raise the enthusiasm of young people not just for using technology, but in helping to create new technical innovations.

Through the xplora Automation Award, the company supports 100 teams worldwide by providing products with a value of €3,000 for individual projects and €4,000 for partnership projects. The competition is conducted in seven categories: education, buildings, factory, environment, recreation, net, and twins. The award winners in each category are invited to the project presentation at the company's Blomberg, Germany headquarters, and are also able to present their projects at the Hanover Trade Fair. The winners are awarded by an independent jury comprising industry and university leaders, as well as members of the press. Roland Bent, Managing Director of Phoenix Contact, acts as chairman. The German Federal Ministry for Economics and Technology and the German Ministry for Foreign Affairs act as patrons of the competition.

The company is also active in many external projects and partnerships, for example, the Aubi-com project, which has the objective of supporting Blomberg secondary school students (see Communication on Progress 2009/2012), and various school partnerships.

Women's Power Day



Phoenix Contact's annual Women's Power Day seeks to attract girls and young women to the exciting world of technology. This one-day event offers workshops, seminars, and guided tours providing a variety of opportunities to learn about current technical professions, talk to trainees, visit working areas, and experience and check out technology first-hand, for example, by wiring a light bulb or programming a small robot. The approximately 120 attendees ranging between 14 and 17 years of age ask Phoenix Contact's trainees and trainers lots of questions about career choices, opportunities for women in technical professions, and the importance of industrial electronics.

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Deutschland Land der Ideen



Ausgewählter Ort 2012

The eighth annual Women's Power Day, which took place in September 2012, was chosen by the initiative "Germany – Land of Ideas" as a selected landmark in the land of ideas. After the selection of „xplore“ in 2008 and „Geothermal Energy“ in 2010 (see page 10), it was the third time for the company in four years. The award acknowledges the company's commitment to encourage girls to enter careers in electrical engineering, electronics, and automation, which

will help ensure the availability of skilled employees.

Phoenix Contact is also working to introduce technology to the little ones as well, through the book "My friend, She's an Engineer" in the Pixi-Buch children's book series. More than 200,000 copies have already been distributed to children. "Researching with Fred" uses a hand puppet in the form of an ant to introduce children to technology and science by allowing them to conduct numerous experiments in a playful setting.