

2011 Corporate Social Responsibility Report





Our CSR Mission

Our Sustainable Future

Since our founding, Solberg has been committed to mitigating the environmental impact of our production and manufacturing processes. We will continue to research newer, better ways of demonstrating our respect for the environment and the overall wellness of our people.

In comparison to last year, we have maintained and expanded upon our sustainable solutions. With the continual pressure of rising prices and cost structures, we aim to maximize our efficiency in everything we do from purchasing smart, to improving our manufacturing processes, to eliminating as much waste as possible throughout our business. New markets and products have challenged us to be creative and resourceful in our solutions. For this reason, our Corporate Social Responsibility (CSR) initiatives are more important than ever. This report outlines our accomplishments over this past year and record our future challenges so that our progress can be identified and acknowledged each year.

Our Philosophy

In this year's CSR report, you will find 2011's achievements and our "P7 Tree" philosophy: Product, People, Planet, Property, Power, Prosperity, and Philanthropy.

The P7 Tree is inspired by the Iroquois' Great Law of Peace, which puts the needs of seven future generations before their own, our philosophy dictates that we factor in seven key ideas associated with the Triple Bottom Line business practice, "People, Planet, and Profit," and our Guiding Principles:

- **We Succeed as a Family** – We are committed and accountable to our business family. Our ability to connect and care for each other ensures our well-being.
- **We Do the Right Thing** – We can be trusted to keep our promises and treat others as we would like to be treated.
- **We Endeavor to be the Best** – We attract, develop, and empower great people. We continually seek ways to improve everything we do.
- **We Take Care of the Customer** – We partner with our customers by innovating and responding to their needs. We do whatever it takes to ensure their satisfaction.
- **We Play Hard to Win** – We rise to every challenge. Our strong work ethic and desire to succeed drives us to outperform the competition.
- **We Love Our Planet** – Every day we all do our part to lessen the environmental impact of our business. We actively seek ways to protect and preserve our environment.

The P7 Tree



Product



People



Planet



Property



Power



Prosperity



Philanthropy



Achievements

Becoming a B Corporation

There are more than 500 certified B Corporations from 60 different industries with one goal of redefining success in business. In 2011, we joined this elite class of sustainability-minded businesses as the first manufacturer to do this in Illinois and one of few similar companies in the United States. By becoming a B Corporation, we agree and believe in the purpose of the B Corporation, which is to expand the responsibilities of the corporation to include consideration of the interests of employees, consumers, the community, and the environment. We will display the B Corporation logo as a visual representation informing our customers, suppliers, and colleagues that we are socially and environmentally responsible.



Certified B Corporations:

1. Meet rigorous standards of social and environmental performance
2. Legally expand their corporate responsibilities to include consideration of “employee interests”
3. Build business constituency for public policies that support sustainable business

2011 Awards

Itasca Green Award – As part of the awards’ inaugural event, we were presented with the Itasca Green Award. This award represents our leadership in the movement toward green companies. Our corporate headquarters are located in Itasca, Illinois.

2011 Governor’s Sustainability Award – The Governor’s Sustainability Award recognizes companies and organizations for their achievements made in improving the economy, protecting the environment, and helping sustain the future. Along with 24 other public and private companies, towns, and non-profit organizations in Illinois, Solberg was awarded the 2011 Governor’s Sustainability Award. Our dedicated service and commitment to transforming Solberg into a sustainable company were recognized upon receiving this award.

The GOOD Company Project (*nominated*) – In 2011, *GOOD* magazine teamed with IBM to create The GOOD Company Project. Their quest was to find 40 businesses with 100 to 1,000 employees that are working better and smarter for a smarter, better world. We were nominated for the competition for being innovative, sustainable, and globalized. As stated by the GOOD Company Project, “Solberg is a *GOOD* finalist because they’re showing that manufacturing can embrace industrial growth as well as environmental responsibility.”



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— *GOOD* magazine



Product

Protecting the Environment Through Product Innovation

In response to the new RICE/NESHAP (Reciprocating Internal Combustion Engine National Emissions Standards for Hazardous Air Pollutants) regulations, Solberg has designed and is manufacturing highly engineered, significant-value crankcase ventilation systems to help end users reach the new compliance. Government bodies calculated that up to 25% of total engine emissions come from the crankcase. Our new design virtually eliminated emissions emanating from the crankcase, reduced excessive knocking of the engine, and minimized cylinder varnishing. In 2011, we made close to 100 systems for this market.

New emissions regulations in Europe required the steel industry to meet new standards. This past year, Solberg helped companies achieve compliance and reduce their energy consumption. We have created two new product lines that help our customers deliver systems that reduce total emissions by more than 80% while reducing energy consumption by approximately 80%.

Smarter Packaging, Saving Money and Materials

Sustainable packaging of our products is an area in which we are continually looking for better solutions to lessen our global footprint. Many of our packaging innovations are not only better for the environment, they have had cost saving implications.

- **Recycled Chipboard Boxes** – We switched from corrugated boxes to recycled chipboard boxes. Recycled chipboard reduces our environmental impact — less material is used and it increases the number of units per box, optimizing packaging requirements and costs.
- **Optimized Packaging Techniques** – We were able to save about 30% on freight costs through optimized packaging. Previously, 22 pallets per 40-foot container were shipped to our international entities. Now, 35 or more pallets are loaded onto the same container, maximizing the number of parts per container and reducing the cost per part shipped worldwide.
- **Reducing Damage through Better Packaging** – This past year we began double-boxing some heavier shipments. This increased the cost of shipping and materials; however, we have eliminated damage due to shipping since this change. Since there are many steps and carbon footprint involved in making our products, especially custom products needing extra packaging, we pride ourselves on getting them safely to our customers the first time.
- **Increased Use of Wooden Crates** – The biggest difference between 2008 and 2011 is the use of wooden crates to ship custom equipment. In 2008, we used only 17 crates, yet in 2010 we used 128 crates, and 230 crates in 2011.



Solberg's newly designed crankcase ventilation systems virtually eliminated emissions emanating from previous crankcase systems.



People

Simple Changes, Significant Improvements

As part of our ten-year vision plan, we stated that we are striving to make Solberg a place where the best people want to work. With this in mind, each year we have a greater focus on the safety and wellness of our employees. In 2011, we made many simple changes that will have a positive, lasting effect on our employees and workplace.

- **Mandatory Safety Standards Document** – Solberg distributed a Safety Standards document, which was mandatory for each employee to sign. All employees are accountable to a set of safety standards for not only their own safety but their coworkers as well. The Safety Standards created awareness for the safety procedures and preventive steps of which each employee must have a working knowledge.
- **Custom-Made Silencers for Noise Reduction** – Loud noise can contribute to poor health such as increased stress, elevated blood pressure, and hearing loss. Custom-made silencers have been installed on compressors and other machinery, and we have lowered the volume of music to reduce noise on the manufacturing floor. In 2012, Solberg plans to continue looking for ways to reduce noise through the innovation of new silencers.
- **Noxious Odors Eliminated with New Pad Printer** – To update the manufacturing process, we purchased a new pad printer with an enclosed paint cup. The enclosed cup eliminates noxious odors, which have helped maintain cleaner air in the immediate area, and is healthier for the operators.
- **Plants Used as Natural Air Purifiers** – We added indoor plants throughout our offices and manufacturing floors. Functioning as living air purifiers, plants contribute to the health of our employees. Plants absorb harmful pollutants in the air and naturally purify it through their roots and leaves and soil bacteria.
- **Annual Employee Health Screening** – We continued to offer an annual health screening, which is a free service available to all employees. The screening includes cholesterol, blood pressure, and nutrition, as well as a test for various diseases. The annual health screening generated less participation than anticipated. In 2012, increased efforts for the health and wellness of Solberg employees will be a focus; and we are looking to extend this service to temporary employees.



Functioning as living air purifiers, plants contribute to the health of our employees.





Planet

Our Commitment to the Environment

In addition to continuing our efforts to reduce, reuse, and recycle, we have taken several steps to generate awareness and interest in sustaining and protecting the environment among our employees, suppliers, and surrounding facilities.

- **Keeping Trash Out of Landfills** – While our waste-to-landfill (trash) amount appeared to be higher than the prior year’s 88% diversion rate, we sold 8% more products compared to 2010 causing the increase in trash. In efforts to reduce our waste-to-landfill rate, we discovered new ways to properly dispose of some items. These included sending damaged products to our scrap metal collector and saving our scrap wood pieces to give to a local power plant to burn as part of its energy source.
- **CSR Purchasing Guideline** – A CSR Purchasing Guideline was established to help guide our purchasing decisions. The main objectives of the Guideline include purchasing from and using CSR-minded suppliers and vendors for environmentally safe products and services.
- **Lowering Our Transportation Carbon Footprint** – We increased our “Made in the U.S.A.” purchases. This purchasing decision displayed our support of local business, which in turn aided in the reduction of our carbon footprint due to less transportation of materials worldwide. We plan to further assess our transportation carbon footprint in 2012.
- **Vegetable Garden** – At Solberg, we believe everyone can play a part in sustaining the planet. To increase awareness for our employees in this initiative, this past summer we started a garden that grew 15 different fruits and vegetables, including watermelon, lettuce, and blackberries. The abundant amount of produce we harvested was given to the employees as a healthy food choice. In 2012, we hope to involve more employees in gardening by creating a Working Garden Club. Additionally, it is planned to expand the garden to use all the land stretching the length of our parking lot.



Our commitment is to maintain the environment and build a better world through sustainable practices.





Property

A Leader in Integrity

Our CSR efforts not only go beyond our manufacturing processes, they permeate into every part of Solberg. We view our property, buildings, and landscape as an area to continue our sustainable, innovative practices. In 2011, we had many opportunities to demonstrate this.

- **Upgrading Our Parking Lot** – We needed to expand our parking lot and, environmentally, we did the absolute best we could, resulting in one of the most unique parking lots around. Half of the new parking lot was created from more than 153,000 recycled green glass bottles. Rainwater passes through, being absorbed back into the earth instead of entering the sewer system and being treated at a wastewater facility. The other half is made of Warm Mix asphalt, which is made at a temperature 100 degrees cooler than normal asphalt, saving oil emissions and energy in the construction process.
- **Native Illinois Prairie Garden** – The last part of the parking lot makeover was seeding the leftover space to create a native Illinois prairie. When complete, we will have a miniature prairie outside our production facility.
- **Preserving Our Environment** – We were approached by the Illinois Department of Transportation (IDOT) to accept a monetary settlement to purchase a portion of our lot and cut down trees for their planned road expansion. The trees protect the building from sun and soil erosion. One is a 25-year-old apple tree that we harvest. With a little research, we discovered IDOT has a mission statement about preserving the environment. Upon further discussion, everyone agreed to keep the trees standing. We hope standing firm and challenging IDOT to operate within its own mission represents a success story for other companies, and we applaud IDOT for its commitment to stand by its mission.
- **Future Innovation Plans** – In 2011, we temporarily discontinued using a natural air pressure equalizer. In 2012, we will investigate the correlation between the outside air temperature and opening doors has with the performance of the oven in order to put it back into service. In 2012, we will be working towards getting our buildings Leadership in Energy and Environmental Design (LEED) certified.



Our revolutionary parking lot contains more than 153,000 recycled green glass bottles.



Power

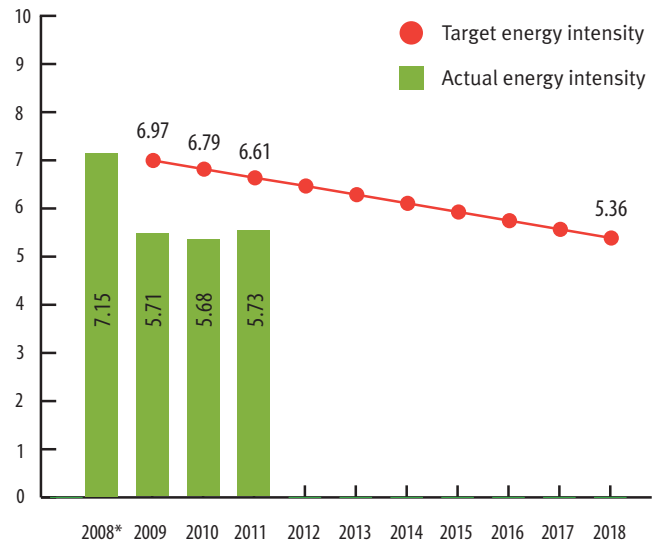
Reducing Energy Intensity

As stated in our 2010 CSR Report, we are committed to reducing our energy intensity, or the amount of energy it takes to produce one unit (product), by 25% by 2018. This breaks down to reducing our energy intensity 2.5% every year.

- **Current Energy Reduction** – We discovered that we are ahead of our timeline for energy reduction and have already reached our 8-year goal of a 20% reduction. Since 2010, we have reduced our electricity use by 2% and increased natural gas use by 4%. In 2012, we will calculate how much energy each machine in our facility uses to produce each product.
- **Monitoring Energy Intensity** – To ensure accuracy in our statistics, we made some headway in how we monitor and record the relationship between the amount of energy used to produce our products. We were able to create a multiplier based on energy use for all product types enabling us to get a more accurate number.
- **Every Change Counts in Energy Reduction** – This year we had a decrease in our monthly source electricity consumption. In 2010, we used 2050 megawatt hours, and in 2011 our consumption was lowered to 2015 megawatt hours. This decrease was due to lighting upgrades and voltage optimizers.
- **Innovative Ways to Reduce Our Energy Usage** – We had a 7% reduction of energy usage in heating our buildings compared to a similar production year in 2008. We attribute this reduction to an efficiency upgrade of our curing oven. In addition we experienced a warmer winter in comparison to the past few years. Even though we have seen a reduction in energy, heating is an area where we will continue to seek innovations and improvements.

Energy Intensity Reduction — 10-Year Target

Energy per unit product (MMBtu/unit)



*Baseline Year



We are currently at the year 8 goal of reducing our energy intensity.



Prosperity

A Greener Bottom Line

With sustainability, efficiency, and cost reduction key focuses over this past year, we have been able to increase our profit and further our responsibilities as an environmentally minded company. Efforts made in sales, packaging, waste management, solar energy, and electricity demonstrate that the other six branches of the P7 Tree were the key components to our increased profit in 2011.

- **Increased Sales with Higher Value Mix in 2011** – Sales increased by 14% from 2010. We sold 8% more products. With this increase, we were excited to have our biggest year-end bonus ever.
- **Better Packaging Lowering Costs** – Packaging saved money with cost-reduction techniques. In 2011, we decreased the purchased cost of packaging materials by 9% compared to 2010 by reducing the overall footprint and saved thousands of dollars on shipping for both our customers and ourselves. Our efforts in reusing and making smarter packaging choices have proven successful in contributing to our bottom line.
- **Scrap Metal Contributing to Our Bottom Line** – By recycling everything we can, we generated \$6,500 from responsible disposal of waste. This is double the amount we made last year, mostly because of the way we scrap metal.
- **Renewable Energy Certificates** – Solar energy from our rooftop solar panels has contributed to our increased profit with Renewable Energy Certificates (RECs). In 2011, we were grandfathered into the Washington D.C. market, which pays us for each megawatt of energy we produce, totaling over \$13,000 in one year. While energy generated by the solar panels achieved a 10-cent-per-kilowatt-hour savings based on current market prices, the sale of our solar RECs accelerates our ROI significantly and we are on track to cut up to 4 years' time in reaching our breakeven point from 11 years stated in 2010 to 7 years.
- **Solar Energy Savings** – Energy generated by our solar system reduced our electricity costs by \$4,450 in 2011. Potentially achieving further overall savings, in late 2011 voltage optimizers were installed to decrease our electricity costs by an additional 15%. Thus, in 2012, we expect even greater savings compared to our baseline year of 2008.

To further aid improvement in the bottom line in 2012, we will examine our equipment for energy-saving benefits that correlate into more efficient production.



By recycling everything we can, we generated \$6,500 from responsible disposal of waste.



Philanthropy

Giving Back, Moving Forward

As a new P this year, philanthropy represents giving back to our community. Our founder, Charles Solberg Sr., was a leader in the community and we proudly continue carrying out his legacy programs. Our heart to help others was seen through the giving of our time, energy, and resources. Donations were in accordance with our new Annual Charitable Donations Guideline. The Donations Guideline divides our giving as follows: 50% environmental, 40% humanitarian, and 10% miscellaneous/disasters, with at least 25% of these donations given locally. A donation of \$10,000 was given to the American Red Cross to help with basic life needs of water, food, and shelter following the earthquake in Japan in 2011.

- **Charitable Trust Fund** – As a means to house undesignated funds each year, we have set up the Solberg Manufacturing Charitable Trust in order to sweep those funds into an investment account for future designation toward charitable organizations.

- **Serving Together in 2012** – A goal for 2012 is to host a company Volunteer Day, which is stated in our new Community Service Policy. There are already some ideas on the table such as working at a forest preserve, adopting the road outside our building to keep it clean, and coordinating donation drives.
- **Inspiring the Future** – In March 2011, CSR manager Travis Solberg had the opportunity to give back to his alma mater, Colorado State University, by giving two “Sustainability in Business” lectures. This was a great opportunity to share Solberg’s involvement in corporate social responsibility. Travis wanted the students to learn that Solberg has created a solid business model, which can be utilized to build healthy, sustainable businesses in the future.



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